Inter-City Gas Corporation 1981 Annual Report

ICG is widely engaged in one of Canada's most important economic tasks: providing energy sources which reduce our dependence on imported oil.

The Resources Division is committed to continue an active exploration program for new oil and marketable gas.

ICG is actively involved in extending efficient natural gas utility services to more Canadians, coast-to-coast.

Our propane marketing team is finding new uses in transportation, industrial processes, and in rural communities for this abundant Canadian fuel.

ICG is Canada's leader in research, manufacture and marketing of heating and cooling equipment which uses fuel more economically.

CONTENTS

ANNUAL REPORT ON FORM 10-K

The SEC Annual Report on Form 10-K for the year ended December 31, 1981 will be provided by mail upon receipt of a written request. Requests should be directed to:

The Secretary, Inter-City Gas Corporation,
Inter-City Gas Building, 444 St. Mary Avenue,
Winnipeg, Manitoba R3C 3T7.

ANNUAL MEETING

The Annual Meeting of the shareholders of Inter-City Gas Corporation will be held on May 20, 1982 at 11:00 a.m. in the Ballroom South, Holiday Inn, 350 St. Mary Avenue, Winnipeg, Manitoba, Canada.

INTER-CITY GAS CORPORATION
HIGHLIGHTS

	1981	1980	1979
Financial			
Operating revenue ($000)	**566,397**	417,178	339,192
Operating profit ($000)	**67,651**	56,596	43,319
Net income ($000)	**10,938**	18,342	12,434
Net income per common share			
– from continuing operations	**$0.70**	$1.40	$1.37
– after discontinued business and extraordinary items	**$0.74**	$1.42	$1.43
Dividends per common share	**$0.40**	$0.32	$0.31
Capital expenditures ($000)	**89,312**	66,018	46,804
Average number of common shares outstanding (thousands)	**13,537**	11,816	7,571
Volumes			
Resources Division			
– Gas – thousands of cubic metres	**292,806**	275,800	279,965
– Oil and gas liquids – cubic metres	**93,446**	99,795	94,551
Utilities Division			
– Natural gas – thousands of cubic metres	**1,094,785**	1,242,211	1,327,488
Liquid Gas Division			
– Propane – thousands of litres	**779,132**	832,023	799,423
Manufactured Products Division			
– Gas furnaces – units	**33,037**	29,126	25,346
– Air conditioners – units	**135,768**	–	–
– Steel pipe – thousands of kilograms	**13,057**	18,750	14,301
Net Proved Reserves			
Gas – thousands of cubic metres			
– Conventional reserves	**7,343,550**	7,366,811	7,483,350
– Arctic Islands	**14,813,895**	14,813,895	14,813,895
	22,157,445	22,180,706	22,297,245
Oil and gas liquids – cubic metres	**1,688,833**	1,567,647	1,561,926

The petroleum industry in Canada has officially converted to the International System of Units for measuring and reporting. To facilitate measures used in the United States and other countries, the following table is included.

	To Convert From	To	Multiply By
OIL AND GAS LIQUIDS	Cubic metres (m^3)	Barrels (bbls.)	6.29
GAS	Cubic metres (m^3)	Thousands of cubic feet (mcf)	.035494
PROPANE	Litres	Gallons	.22
STEEL	Kilograms	Pounds	2.2046
LAND HOLDINGS	Hectares	Acres	2.47

10^3m^3 indicates thousands of cubic meters. 10^6m^3 indicates millions of cubic meters.

Robert G. Graham,
President and
Chief Executive Officer

I am pleased to report that total revenues for fiscal 1981 climbed by 36 per cent to an all-time high of $566.4 million. The improvement in revenues was translated into a 20 per cent increase in operating profits, which rose to a record $67.7 million for the year. Significant increases were realized from our oil and gas production and our gas utility operations. However, several adverse circumstances combined to forestall our achieving yet another record in net income, from continuing operations, which was $10.5 million or $0.70 per share as compared with $18.1 million or $1.40 per share in 1980.

Factors which contributed to the decline in profit in the year were:

i) the impact of the warmer weather on natural gas and propane heating loads;

ii) the costs of entry into new ventures such as auto-propane, industrial gas manufacturing and KeepRite, which had little or no opportunity to make a contribution to 1981 profits;

iii) the ill effects of continuing high interest and inflation rates which negatively affected the overall results of our company, as they did the results of the majority of corporations;

iv) the aftermath of the Canadian Government's 1980 National Energy Program which in the short term has produced more unfavourable consequences than benefits for an energy oriented company such as ICG directing its activities to the discovery, production, distribution and marketing of energy and the manufacture and sales of energy equipment. Those aspects of the Energy Program which in time will greatly stimulate specific sectors of our business have been slow to materialize. Meanwhile, the more punitive aspects of the Program have imposed an immediate burden on our Resources Division through new taxes.

On the positive side, our Resources Division expanded in stature and scope. The value of our oil and gas reserves increased by 20 per cent to $280 million (assuming prices as currently provided under the Canada-Alberta agreement of September, 1981 and applying a 25 per cent cash-flow discount factor before income taxes), a value equivalent to over $20.00 per outstanding common share.

In the second quarter of 1981 your Company acquired a 65 per cent interest in KeepRite Inc., Canada's leading manufacturer of air conditioning equipment. This acquisition extends our product range across the entire heating, ventilation and air conditioning energy use market. Likewise, the acquisition in January of Les Industries Barriére of Montreal assures improved ability to meet the increased demand for new types of furnaces as natural gas service is extended from Montreal to the new markets of Eastern Canada. Although KeepRite earned $2.4 million for the full

year, the timing of our acquisition did not result in a net contribution to our reported 1981 earnings. The contribution of KeepRite and Barriére to future profits of Inter-City Gas seems assured, and we are particularly optimistic about our enhanced ability to develop and produce new generations of products offering major growth potential, such as heat pumps and high-efficiency gas furnaces.

Our partnership with the Société Québecoise D'Initiatives Pétrolières (SOQUIP) in establishing a new natural gas utility in Quebec is progressing well. In March, 1981, Gaz Inter-Cité Québec Inc., in which we have a 49 per cent interest, was awarded a 30 year exclusive franchise to distribute natural gas to 80 communities in the province, including the capital, Quebec City. Construction of the natural gas transmission pipeline east of Montreal is underway, and first deliveries in the City of Trois Rivières are expected in late 1982.

We have also applied for franchises to move our distribution capabilities into the provinces of Nova Scotia and New Brunswick.

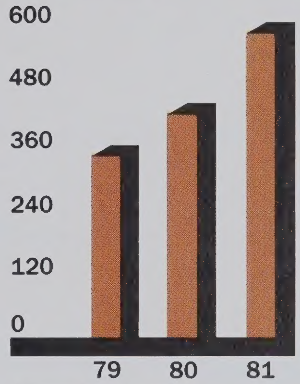
Our activities in the sale and distribution of auto-propane to fleet operators are progressing well. While 1981 costs of introducing this new program were high and sales were slow in gaining momentum, by year end we were up to our planned volumes and the upward trend has accelerated as we moved into 1982. As the leading distributor in Canada of this plentiful alternative fuel we have been encouraged to seek development of other new market segments for propane.

Trading in your Company's shares resulted in our Canadian Ownership Rate (COR) at year end being 54% and 57% at the time of this report, compared to 29% in December 1980. The continuation of this trend together with the 5 per cent bonus provided by draft legislation to Canadian public companies where ownership is widely held, as is the case with ICG, will qualify us for incentive grants sufficient to encourage exploration for new oil in Canada.

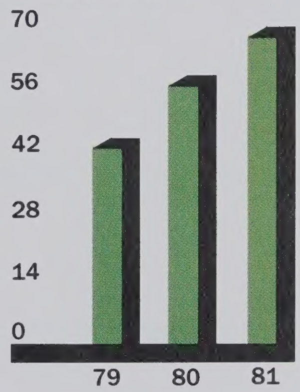
Desirable changes have occurred in our market opportunities, and we have adapted our organization to maximize them. We expect 1982 to be a challenging, but rewarding year. We share with all employees of ICG the commitment to achieve our objectives.

President and Chief Executive Officer

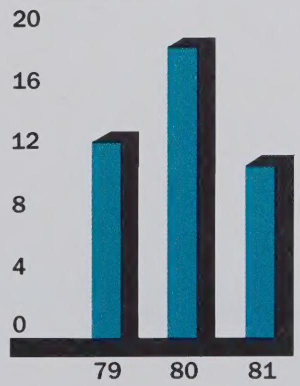
Operating Revenue
In millions of dollars



Operating Profit
In millions of dollars



Net Income
In millions of dollars



Resources

ICG explores for, develops and produces oil and natural gas in Canada and the United States. Our primary Canadian land holdings and activities are in Alberta, British Columbia, and the Arctic Islands. We are also active partners in promising exploration and development work in Texas, New Mexico and California, among others, in the U.S. The division is actively seeking new oil and major marketable gas reserves in both countries, optimizing its cash flow while substantially increasing our longer term asset value by reserves.

Utilities

ICG utilities provide natural gas distribution services to more than 90,000 customers in British Columbia, Alberta, Manitoba, Ontario and Minnesota, and electric power distribution to the city of Yellowknife, Northwest Territories. In addition, the Company holds a 49% interest in Gaz Inter-Cité Québec, the gas distribution franchise chosen to extend service to most of Quebec east of Montreal between 1981 and 1990. Gaz Inter-Cité Québec will deliver its first gas in 1982. The Company is also actively pursuing new franchises in New Brunswick, Nova Scotia and British Columbia.

Liquid Gas

The ICG Liquid Gas Division is primarily engaged in the distribution of propane, industrial gases, and related appliances through more than 140 branches in all regions of Canada except the Maritimes. Through ICG Canadian Propane and ICG Gasbec, the Company continues as Canada's propane market share leader. Marketing emphasis is now concentrated on expanding the entire Canadian propane fuel market and earning ICG its appropriate share of that larger market, especially through ICG Auto-Propane® and programs to sell propane into previously undeveloped industrial fuel markets. The industrial gas venture is first being developed to serve the welding products market through our propane branches

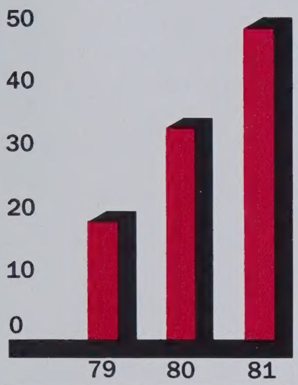
Manufactured Products

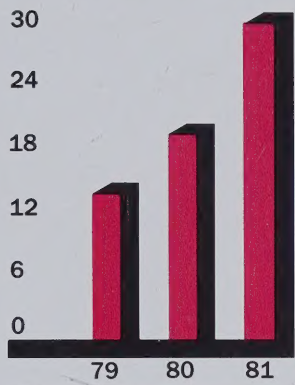
In Canada, the Company manufactures and distributes residential, commercial and industrial heating, air conditioning and heat transfer equipment as well as distributing complementary products made by other manufacturers. In 1981, ICG acquired Les Industries Barriére of Montreal, another furnace manufacturer, and a 65% interest in KeepRite Inc., Canada's leading manufacturer of air conditioning and commercial refrigeration equipment. With plants in 4 Canadian cities and wholesale distribution branches in 10, ICG continues as the country's leading manufacturer and distributor of environmental control products. The Company also operates a successful water transmission pipe plant in Denver, Colorado.

D. S. Rogers,
Executive Vice-President and
Chief Operating Officer

Operating Revenue
In millions of dollars

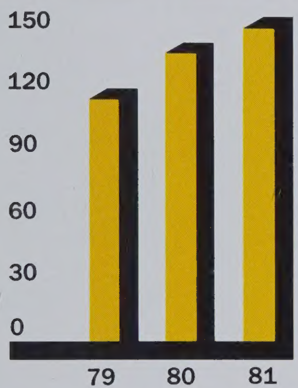
Operating Profit
In millions of dollars

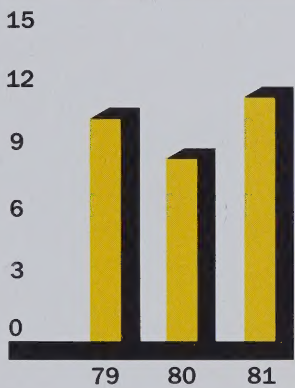




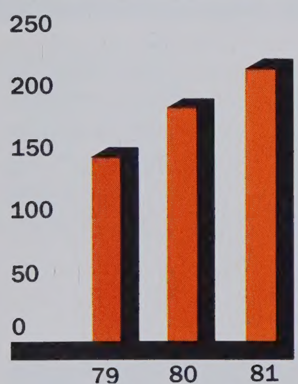
1981 Highlights

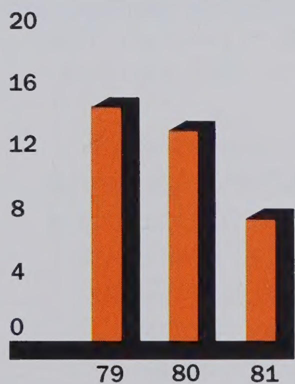
	($000)
Operating revenue	49,362
Operating profit	29,707
Capital expenditures	44,033
Total assets (Book value)	228,015
Key volumes –	
Gas – thousands of cubic metres	292,806
Oil and gas liquids – cubic metres	93,446



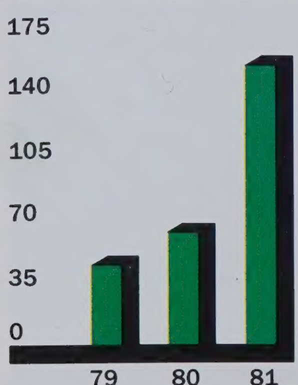


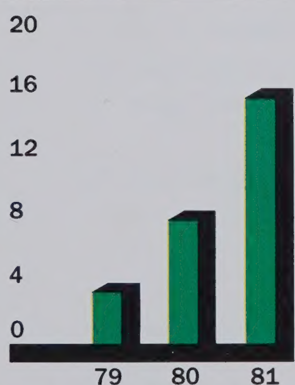
	($000)
Operating revenue	149,279
Operating profit	11,532
Capital expenditures	16,748
Total assets (Book value)	146,623
Key volumes –	
Natural gas – thousands of cubic metres	1,094,785





	($000)
Operating revenue	210,559
Operating profit	7,919
Capital expenditures	25,661
Total assets (Book value)	138,437
Key volumes –	
Propane – thousands of litres	779,132





	($000)
Operating revenue	153,776
Operating profit	15,576
Capital expenditures	2,530
Total assets (Book value)	106,146
Key volumes –	
Gas furnace – units	33,037
Air conditioners – units	135,768
Steel pipe – thousands of kilograms	13,057

RESOURCES

In 1981 ICG continued its commitment to build a major oil and gas exploration and production enterprise. The key elements of our business strategy to accomplish this are as follow.

- We are conducting an aggressive search in Canada for new oil, and in the United States for deliverable natural gas and oil in order to take advantage of the most attractive terms of price and marketability available.
- We continue to build an outstanding team of technical specialists to further our advantage in geology, geophysics, and engineering.
- We are employing some of the most advanced techniques available to interpret the expanded volume of seismic data.
- We began an extensive program to rationalize the Company's substantial land holdings in the geologically promising areas of Canada's western sedimentary basin.
- We are pursuing new partnership arrangements which will allow us to make the best use of our capital and the expertise of our people, and to maximize our advantage from current government exploration incentive programs.

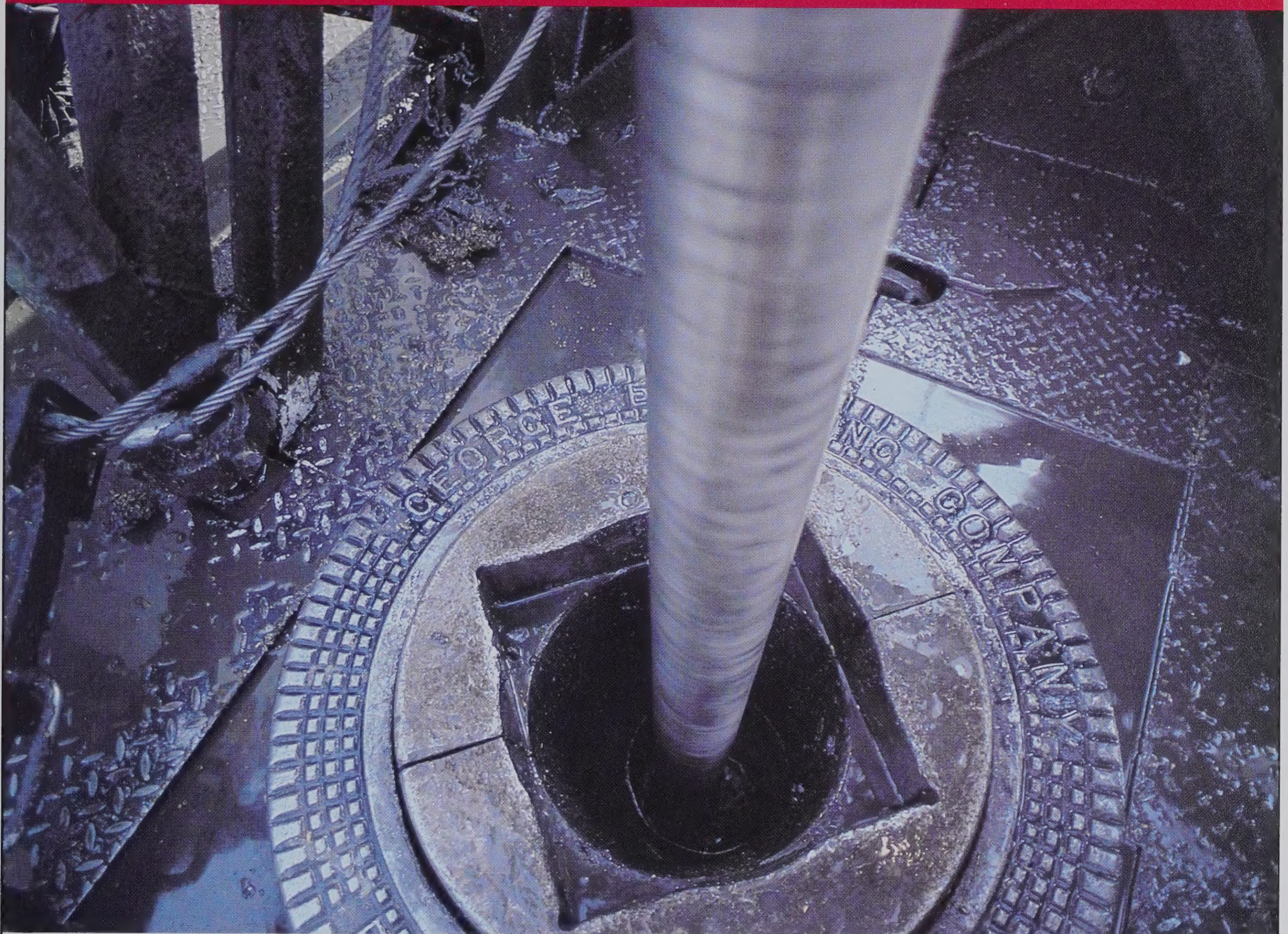
Operating revenue for the year increased by 17 per cent to $49.4 million and operating profits rose by 24 per cent to $29.7 million. The value of our proved reserves of oil and gas increased by $46 million (as measured by independent evaluations based on future price increases as now provided under the Canada-Alberta agreement of 1981, applying a 25 per cent cash-flow discount factor).

New reserves of oil and natural gas liquids were discovered and proved in 1981 in the Gold Creek and Travers areas of Alberta. Additional oil prospects are being developed in other oil-prone areas of Alberta and in the United States including the Michigan Basin; San Juan Basin, New Mexico; San Joaquin Basin, California; and Midland Basin, West Texas.

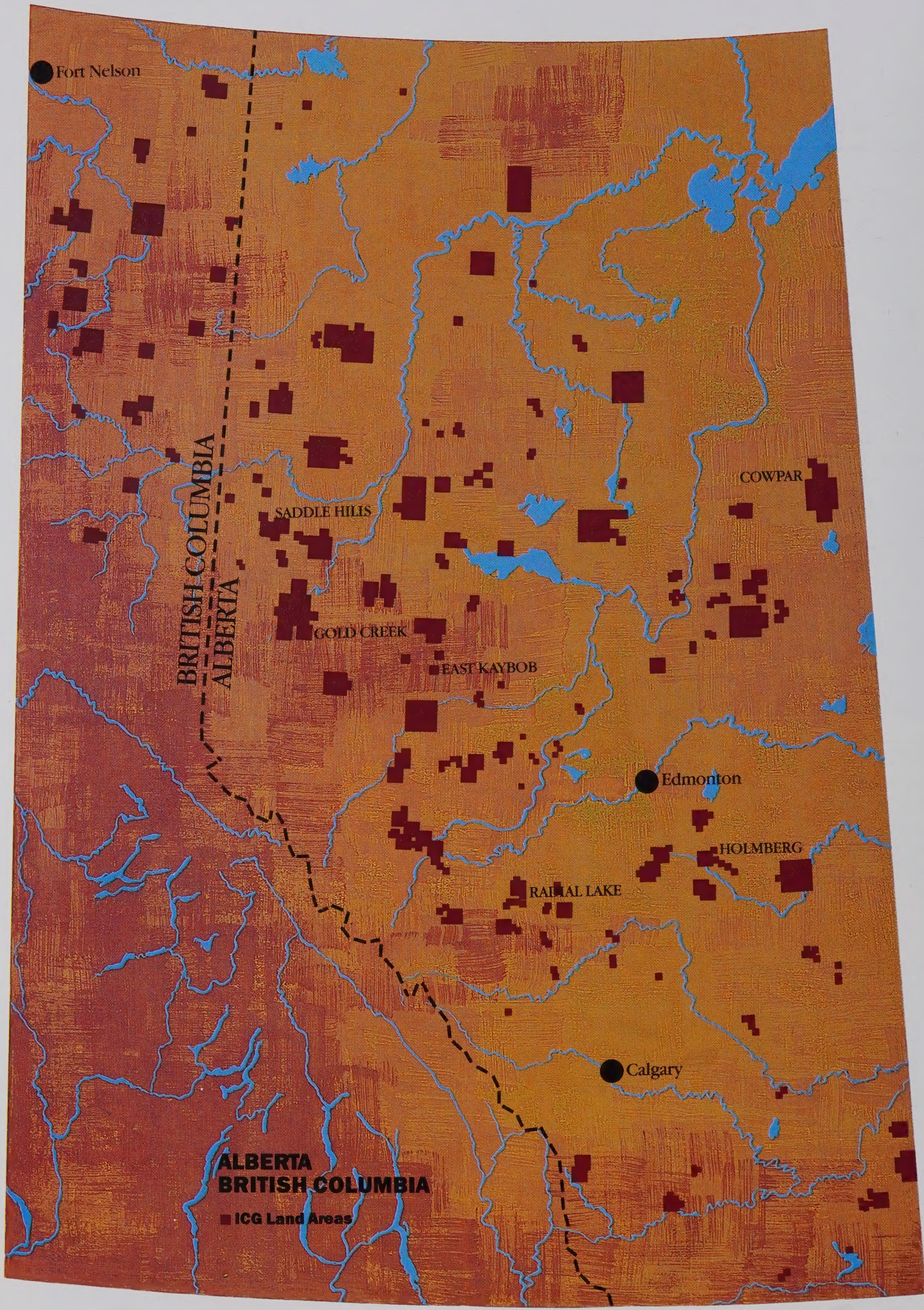
The Company also developed and matured numerous Western Canadian gas prospects on wholly owned and joint venture lands. However, until the present Canadian gas surplus is relieved, drilling and development in Canada will be selective. In the United States, ICG is aggressively pursuing, numerous drillable large reserve gas prospects. These areas are being explored with other partners where we have interests varying from 10 per cent to 42.5 per cent.

Some areas of significant activity during the year are shown on the following pages.

R. C. Siegfried,
Group Vice-President



ICG Resources continues an active program of exploration and development drilling for new oil and marketable gas.

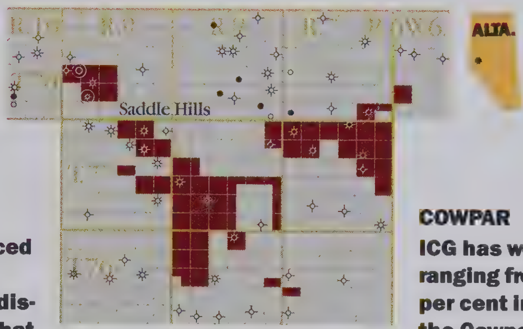

Fort Nelson
BRITISH COLUMBIA
ALBERTA
SADDLE HILLS
GOLD CREEK
EAST KAYBOB
COWPAR
Edmonton
HOLMBERG
RADIAL LAKE
Calgary
ALBERTA
BRITISH COLUMBIA
ICG Land Areas

GOLD CREEK

In August, 1981 ICG announced the completion of a major Wabamun gas-condensate discovery well at Gold Creek. That well, on lands in which we hold an 11.66 per cent interest, recorded a daily restricted flow rate of 681.8 10^3m^3 of natural gas and 190m^3 of condensate. ICG also participated in two other significant Wabamun gas-condensate wells in 1981, and in four others which are potential Cretaceous or Triassic gas wells.

Subsequently we participated in acquiring other land in Gold Creek via both purchase and farm-in. At the end of 1981 we had secured interests ranging from 2.92 per cent to 20 per cent in a gross 64,583 hectares of land in the Gold Creek area.

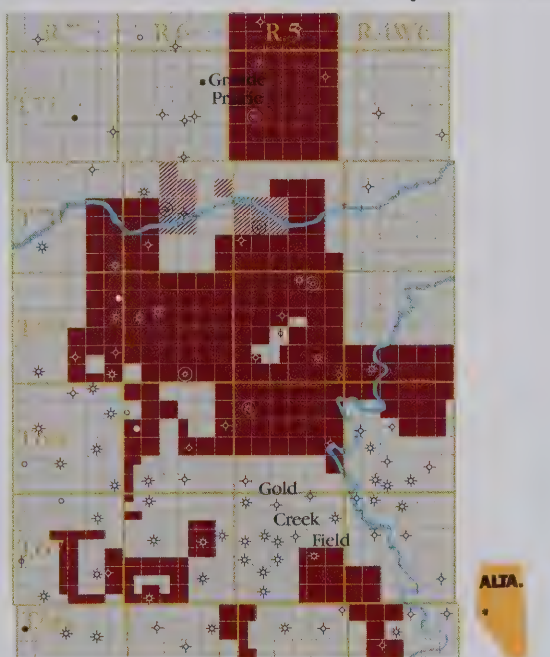
During 1982, ICG will participate in an active drilling program aimed at more fully evaluating our extensive and promising land holdings there.



◦ Location or Drilling
✧ Abandoned
☼ Gas Well
• Oil Well
■ ICG Various Interest Lands
⊛ 1981 Drilling
◎ Proposed 1982 Drilling

SADDLE HILLS

The Company participated in the drilling of a gas well which extended the northern limits of the Halfway gas pool in Saddle Hills. The pool is presently being unitized and ICG will be participating in several development wells in 1982 to prove additional gas reserves. Our working interests, range from 12.5 per cent to 50 per cent in the lands containing the Halfway pool. Saleable gas reserves contracted to PanAlberta are in the order of 4.22 10^9m^3. Commencement of gas sales from this project is expected for late 1983.



◦ Location or Drilling
✧ Abandoned
☼ Gas Well
• Oil Well
⍿ Suspended Well
■ ICG Various Interest Lands
▨ Farm-in Lands
⊛ 1981 Drilling

COWPAR

ICG has working interests, ranging from 50 per cent to 100 per cent in 32,648 hectares in the Cowpar area. The Company's reserves of 1.03 10^9 m^3 are contracted to TransCanada Pipelines with gas sales scheduled to commence November 1, 1982. Construction of the gathering system, compression, and dehydration facilities started in late 1981. ICG expects initial daily production of 70.4 10^3m^3 net from this project. During the year, the Company participated in the drilling of two pool delineation wells with five land earning wells planned for early 1982 to prove additional reserves for this project.

◦ Location or Drilling
✧ Abandoned
☼ Gas Well
• Oil Well
■ ICG Various Interest Lands
⊛ 1981 Drilling
◎ Proposed 1982 Drilling

EAST KAYBOB

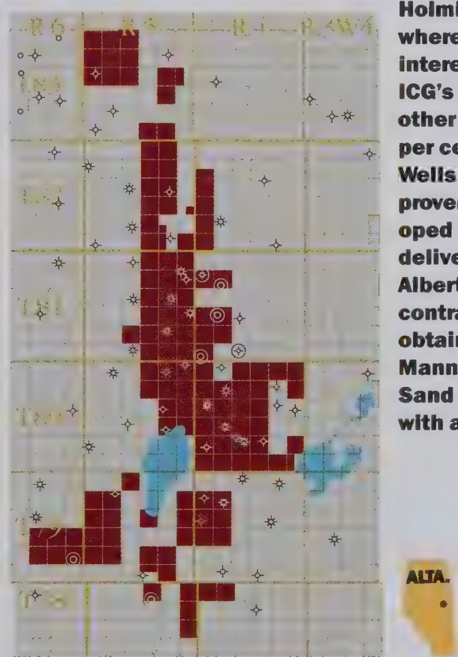
The East Kaybob Beaverhill Lake Unit #1 gas recycling scheme commenced production in August, 1981. The Company has a 22.4 per cent working interest in this property which is generating net production after royalty of 7 060 10^3m^3 residue gas sales and 18 864m^3 of natural gas liquids annually.

RADIAL LAKE

Three Cardium gas wells in the Radial Lake area, in which ICG has working interests ranging from 25 to 50 per cent, commenced production in April, 1981. This property is expected to generate net production after royalty to ICG of 7 600 10^3m^3 of residue gas and 700m^3 of natural gas liquids during 1982.

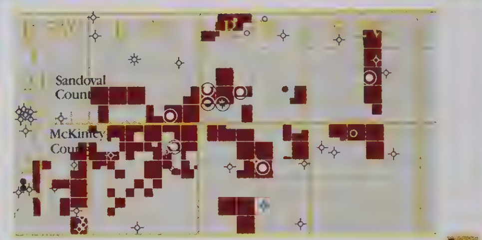
HOLMBERG

Seven successful wells were drilled in the Holmberg area. Three wells were drilled in the Holmberg-Mannville gas unit where ICG retained a working interest of 7.288 per cent. ICG's working interests in the other wells vary from 4.75 per cent to 28.5 per cent. Wells were drilled to delineate proven and probable undeveloped reserves and to increase deliverability for an existing Alberta and Southern gas contract in the area. All wells obtained production in the Mannville zone (Glauconite Sand Channels) and one well with a Belly River pay zone.



NORTH AMERICA

■ Areas in which ICG holds petroleum and natural gas rights.



◦ Location or Drilling • Oil Well
✧ Abandoned ■ ICG Various Interest Lands
☼ Gas Well ○ 1981 Drilling

SAN JUAN BASIN PROJECT, NEW MEXICO

In September 1981, ICG entered into an exploration agreement in the San Juan Basin of New Mexico. The Company acquired an interest in six wells completed as potential oil wells in the Cretaceous Mancos Formation and has participated in the drilling and completion of two additional potential oil wells. At year end, a total of eight wells were on production at a rate of approximately 397m³ per month. Stimulation of the productive zone is planned for 1982 to maximize production.

The Company has acquired, or has under option, 13,441 gross hectares. ICG's working interests vary from 9.375 per cent to 18.75 per cent. An extensive seismic program was completed in late 1981 and will be utilized to locate future wells on the most prospective trends. The exploration and development program will continue through 1982 with a minimum of four additional wells to be drilled.

1981 EXPLORATION AND DEVELOPMENT DRILLING

Despite some uncertainties stemming from the absence of a Canada-Alberta oil and gas pricing agreement early in the year, ICG increased its exploration and development budget in 1981, and continued an extensive drilling program. Our 1981 program is explained in the following table.

	Exploration Wells	Development Wells	Total Gross	Total Net
Oil	9	7	16	4.11
Gas	48	27	75	19.11
Abandoned	19	8	27	5.27
Drilling	7	3	10	0.72
	83	45	128	29.21

We are pleased our success ratio was 77 per cent overall, 75 per cent for wildcats and 80 per cent for development wells.

1981 LAND PROGRAM

In 1981, the Company continued an active land acquisition program, investing \$6.4 million in securing lands primarily located in Western Canada. Our gross land position is now 4.3 million hectares (828,302 hectares net), a substantial decrease from our year end position of 1980. This is attributable mainly to certain lands in the Arctic Islands which were applied for previously but not received.

CANADA	Hectares GROSS	Hectares NET
Alberta	752,859	289,189
British Columbia	187,950	41,757
Saskatchewan/Manitoba	126,855	13,959
Yukon/North West Territories	214,855	13,454
Arctic Islands	1,599,722	165,824
Eastcoast Offshore	4,739	3,555
Hudson Bay	1,410,761	294,828
	4,297,741	822,566
UNITED STATES	28,644	5,736
Total	4,326,385	828,302

PRODUCTION

ICG's production of natural gas on a daily basis in 1981 was 802 10^3m^3 up 9 per cent from 1980. Our oil production averaged $256m^3$ net per day, a decrease of $17m^3$ per day from 1980. The decrease is attributable to the normal production decline.

RESERVES

Independent appraisals of ICG's proved oil and gas reserves at December 31, 1981 show net gas reserves of 22,158 10^6m^3 of which 14,814 10^6m^3 is in the Arctic Islands and 7,344 10^6m^3 in conventional production areas of Canada and the U.S. Crude oil and natural gas liquids amount to 1,689 10^3m^3, all in the conventional areas.

The Securities and Exchange Commission requires oil and gas companies to report the present value of future net revenues (before income taxes) from their reserves based on prices and costs in effect at the most recent year-end, on a non-discounted basis and on a present value basis of 10% per annum. These calculations produce a value for our reserves of \$636 million (non-discounted) and \$290 million (10% present value). Alternately, the future net revenues from our reserves, using the pricing formula in the Canada-Alberta agreement of September 1981 discounted at 25% per annum, produce a value of \$280 million. In these calculations no revenues have been assigned to reserves in the Arctic Islands.

RIO GRANDE
JOINT VENTURE AREA, TEXAS

ICG entered into a joint venture agreement in Hidalgo, Willacy, and Cameron counties in South Texas. During 1981, seismic data were obtained throughout the joint venture area, and leases were acquired over two gas prospects. At the end of 1981, ICG had a 42.5 per cent working interest in a gross 1375 hectares of leases within the joint venture area. Both prospects are programmed for drilling in 1982. Further seismic and lease acquisition is also planned within the joint venture area for 1982.

MIDLAND, TEXAS

The Company participated in the drilling of six development oil wells in the Midland, Texas area during 1981. Four of the wells on the Anchor lease, in which ICG has a 16 per cent net interest, had an average initial producing rate of $4.5m^3/d$ per well. Two wells drilled in the RK Devonoian Field, in which the Company has a 6.2 per cent net interest, had initial producing rates of $39m^3/d$ and $25m^3/d$ respectively.

CARMINE PROSPECT
FAYETTE COUNTY, TEXAS

The Company participated in the drilling of an Austin Chalk gas-condensate discovery well in Fayette County, Texas. The well is currently being completed and upon completion, ICG will have earned a net 12.5 per cent working interest in a gross 166 hectares of land.

ICG distributes natural gas in five provinces of Canada and the state of Minnesota.

UTILITIES

ICG Utilities Division recorded significant growth in revenues and operating profit in 1981 despite an abnormally mild winter (about 14 per cent warmer than normal across our service areas) which reduced customer demand for natural gas. Operating revenues increased by $13.7 million or 10 per cent to $149.3 million, and operating profit rose by $2.9 million or 33 per cent to $11.5 million.

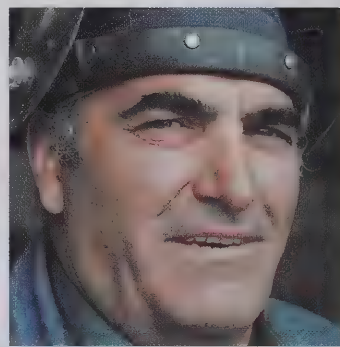
Principally because of the warmer temperatures, our volume of gas sales to rate schedule customers was lower by 5 per cent than in 1980 at 585 10^6m^3. Volume sales to special contract customers in industry declined by 19 per cent from 1980 to 510 10^6m^3. This reduction in industrial volume was primarily from a continuation of the circumstances experienced in our Minnesota Region during 1980 where the impact of the high Canadian export price of gas, economic conditions and conservation efforts all translated into a reduced demand for natural gas. We believe that this condition has now stabilized, and overall growth in sales volumes should occur in the future.

Our customer base grew at the historic rate in 1981 as we added 2750 new natural gas customers, bringing our total to 90,866. The Canadian Oil Substitution Program, an incentive device of the National Energy Program to encourage conversion from imported oil to Canadian natural gas, was later getting underway than expected, but we anticipate it will help accelerate our opportunity to add new natural gas customers in 1982.

Capital expenditures in 1981 totalled $16.7 million, an increase of over $5.5 million compared to 1980. Grants and customer contributions amounted to almost $7 million resulting in net capital expenditures of approximately $9.7 million. Most of the funds from grants and customer contributions were applied to the replacement of rural plastic distribution systems and improving system capacity in Alberta. Much of the balance was invested in a looping program in Alberta to provide security of supply to our customers there.

N. J. Didur,
Group Vice-President

The Utilities Division upgraded its record of keeping rate relief requests current in order to provide rates of return commensurate with inflationary and other economic trends. The Division presently operates in nine regulatory jurisdictions. During 1981 we submitted thirty-six rate adjustment applications of which twenty-nine effected a pass through of increased costs resulting from supplier price changes and federal taxes. Six were related to the recoupment of higher operating and maintenance expenses, increased costs of borrowing and an erosion in return on equity. Interim rate increases have been allowed in six of these proceedings pending final decisions. These rate increases generated $2.6 million in revenues during 1981, or approximately $8 million on an annualized basis.



NEW FRANCHISE DEVELOPMENTS

The expansion of the Division's natural gas distribution franchise rights into new market areas in Canada continues to be given highest priority. The potential on this front can be seen in the following important developments.

- The September 1, 1981 Canada-Alberta gas pricing agreement and recent Energy, Mines and Resources Canada programs provide a framework for expanding natural gas sales into new market areas. These programs will result in natural gas being priced competitively with oil, and distribution system expansion contributions becoming available to assist in the expansion of gas distribution systems that might otherwise be considered uneconomic.

  As a consequence, ICG intends to offer natural gas service to our new customers in eastern Quebec and possible future customers in New Brunswick and Nova Scotia at prices which are at least 10 per cent below oil or electricity, and we will be able to subsidize those customers' costs of converting to gas. We are most optimistic about building our franchises in eastern Canada under those terms.

- The National Energy Board recently approved the extension of gas transmission facilities from Quebec City through New Brunswick and Nova Scotia. This extension opens possible new markets for ICG.
- ICG Brunswick Gas Ltd., an ICG company in which New Brunswick investors secured a 40 per cent interest, filed a proposal to the Special Cabinet Committee of the Government of New Brunswick for the rights to distribute natural gas in that province. The Committee held hearings in October to review the proposals submitted by various applicants.

- ICG Scotia Gas Limited is filing an updated proposal with the Nova Scotia Government in its continuing endeavour to acquire gas distribution rights in the province.
- ICG Utilities (British Columbia) Ltd. was formed during 1980 with the intention, subject to the necessary regulatory approvals from all jurisdictions concerned, of consolidating all ICG utility operations in the province.
- Hearings are still pending for the gas distribution rights on Vancouver Island.

Natural gas service is being expanded to new customers in all ICG utility markets.

SUMMARY

At ICG Utilities we are dedicated to two broad streams of activity to assure our growth and continued profitability. In our mature market areas, mostly in western Canada, we will continue to concentrate on effective cost controls and a disciplined program of rate relief requests to assure suitable rates of return commensurate with inflationary and economic trends. In Quebec, we will pursue new market penetration, and in New Brunswick, Nova Scotia and some opportunity areas of western Canada, we intend to seek new franchises in order to take full advantage of the available profit potential.

LIQUID GAS

In 1981 ICG continued its development of new uses and markets for propane, principally as an economic replacement for gasoline by fleet operators, and as an attractive alternative to oil in specialized heating and process applications. While both programs require significant lead time in market development, the prospect of higher year round base loads offers substantial rewards.

Revenues increased by nearly 20 per cent to $210.6 million largely as a result of the pass through of propane cost increases. Higher operating expenses related to the start-up of our auto-propane and industrial gas businesses, and inflationary increases in other costs resulted in operating profit of $7.9 million compared to $13.4 million in 1980.

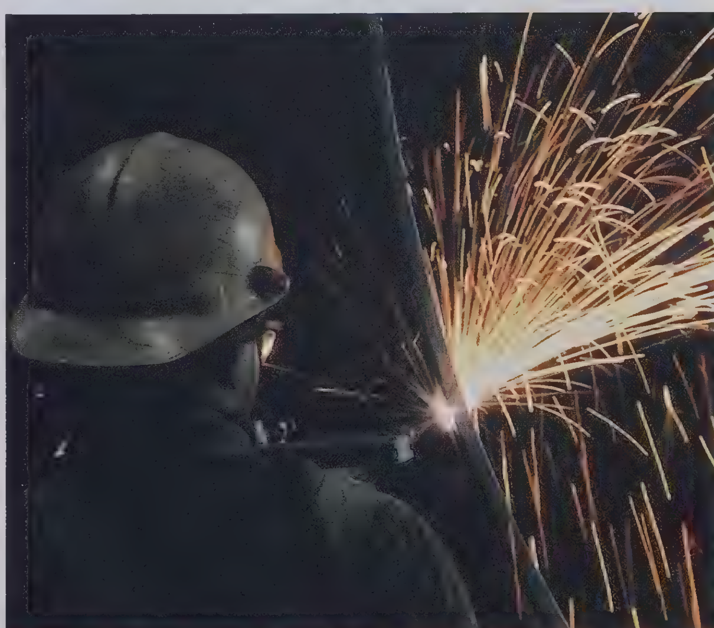
Propane volumes in 1981 were 6 per cent below the previous year. The effect of 12 per cent warmer than normal weather on our heating load, and the slowdown in economic activity in the lumber, mining, and oilfield industries adversely affected volumes. These substantial decreases were offset to some degree by increased auto-propane volume, and new customers.

During the year we implemented several significant organizational changes aimed at increasing market share and improving profitability.

- The Division was reorganized from 2 regions — East and West — into five geographical sales and operating zones, providing senior management with closer management direction and control of operations.
- A national product marketing function was established to accelerate market development in the three principal segments of the business — residential and commercial heating, auto-propane and industrial gases.
- A new senior position — Vice-President of Supply and Distribution — was established to develop the full potential of the Division's propane buying capability in keeping with its role as Canada's leading domestic propane marketer.
- Having regard for the amount of capital committed to customer tankage and distribution equipment, rigorous new standards have been set to assure improved productivity.

W. Zboroluk,
Group Vice-President

ICG is Canada's leading distributor of propane, and has entered the industrial gas market on the strength of its propane branch distribution system.



Auto-Propane

Escalating gasoline prices and government incentives for the conversion of gasoline vehicles to alternate surplus fuels resulted in the preliminary introduction of ICG Auto-Propane® in 1980, the first program in Canada for the conversion of commercial fleets to propane fuel.

The rate of conversions and growth in sales volumes was slower than anticipated early in 1981 as operators tested the impact on costs before committing their entire fleets to propane. As the year progressed, there was an encouraging increase in the rate of conversions and in fuel volume as fleet managers recognized the results they were achieving. Fleet operators who have joined the ICG Auto-Propane® program are reporting significant savings, as high as 35 per cent in fuel costs, plus measureable cost reductions on vehicle maintenance. ICG is securing a broad base of long-term fleet fueling contracts.

We have also recruited fleet oriented car and truck dealers to operate as ICG Authorized Service Centres, training them to provide propane conversions and maintenance service; and supplying them with conversion component kits and support marketing services. The ICG program is a comprehensive service offering fleet operators a total package of parts, conversion, fueling, and maintenance and technical support.

ICG Auto-Propane® is a full service program to convert and fuel commercial vehicles with economic propane.

Propane

The largest part of our "traditional" propane business will continue to come from satisfying heating requirements in areas of Canada not served by natural gas utilities. However, since heating load volumes are weather sensitive, greater efforts continue to be directed toward identifying and securing more stable, year-round demand.

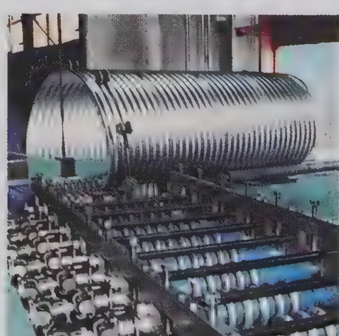
In one new program a strong effort is being directed toward certain high volume industrial fuel users, since they may now enjoy the cost advantage of propane along with government incentives to convert from oil. Propane is a logical alternative which can offer minimum costs, early paybacks, and improved results.

Industrial Gas

Construction of a new air separation plant in Calgary neared completion in 1981. It is expected to commence operation in the second quarter of 1982. The current decrease in oil and gas drilling activity and related industries in Alberta has created a limited and intensely competitive market for its primary product — nitrogen — in the short term. However, the plant we are putting on stream should serve a significant longer term need for the western Canadian oil and gas well servicing industry.

In another part of the industrial gas business, ICG continues to experience growth in sales of welding gases and equipment through our propane branches.

ICG fabricates metal in both Canada and the United States, producing energy use products like furnaces and heat pumps and steel pipe used in water transmission.



MANUFACTURED PRODUCTS

ICG Manufactured Products Division enjoyed a year of growth in 1981, both from operations and by acquisitions.

ICG owns and operates manufacturing plants in both Canada and the United States. In Canada our business is energy products — furnaces, air handling equipment, air conditioners, refrigeration equipment, and heat pumps. We build them, and then wholesale them through our energy products branch distribution system. In the United States we manufacture and sell large diameter steel pipe which is used principally in water transmission.

In 1981 we achieved substantially increased revenues and profits from our ongoing furnace manufacturing and energy products distribution activities in Canada. Revenues from these operations increased 36 per cent to $46.4 million, while operating profits were up 45 per cent to $3.0 million. Operations at Thompson Pipe and Steel in Denver produced lower operating revenues and profits than in the extraordinarily good year of 1980, but are considered satisfactory in view of the cyclical nature of our business. Thompson revenues were $21.1 million in 1981 compared to $26.3 million in 1980; operating profits were $3.3 million, down from $5.8 million the year before.

C. R. Beenham,
Group Vice-President

Energy Products

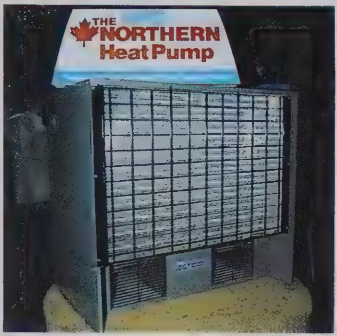
In the past year the energy products distribution component of our Manufactured Products Division expanded significantly. The Division achieved an increased share of market for its current product lines and acquired major interests in two mature and profitable companies that broaden the product base and geographic coverage.

Early in 1981 the Division acquired the assets of Les Industries Barriére, a heating equipment manufacturer in Montreal. These assets have been integrated with others of the Division so we are now positioned to respond effectively to increased demand resulting from the extension of the natural gas pipeline eastward from Montreal and government incentives to convert from oil use.

In May of 1981 we acquired a majority interest in KeepRite Inc., Canada's largest manufacturer of air conditioning equipment. This acquisition broadened the manufactured product lines distributed from our energy products outlets to the heating, ventilation and air conditioning trade.

With KeepRite's operating results from Canadian and U.S. operations incorporated for the entire year, operating revenues in the energy products segments of our Division are $132.7 million and operating profits are $12.3 million.

Product development effort is directed to the creation of a full commercial and residential line, placing major emphasis on product integrity and energy efficiency. 1981 research efforts were concentrated on flue-condensing gas furnaces which achieve up to 95 per cent efficiency as compared with approximately 60 per cent for conventional gas furnaces. These furnaces are currently being field tested and are targeted for marketing in April of 1982. Product approval by the American Gas Association has been applied for with the intention of establishing the condensing furnace as the cornerstone of a selected line of products in the United States.



ICG acquired a 65% interest in KeepRite Inc., Canada's leading manufacturers of air conditioning equipment.

Additional funds are being applied to research on the next generation of furnace technology capable of efficiency ratings of over 95 per cent in a more compact configuration. Prototypes have been developed and a limited term agreement to manufacture under license has been entered into with a major U.S. manufacturer.

Through our association with KeepRite, our energy products distribution branches have obtained exclusive marketing rights for the "Northern" heat pump, a recognized product of proven reliability. The addition of a quality, Canadian engineered heat pump gives ICG a residential product line unsurpassed by any competitive manufacturer in Canada.

A broadened product line, including high efficiency furnaces, and the incentives to displace heating oil which foster demand for increasing numbers of replacement furnaces make the 1982 outlook attractive for the Manufactured Products Division energy products business.

Thompson Pipe and Steel

Thompson Pipe and Steel Company operates a manufacturing plant in Denver, Colorado which produces engineered steel products, primarily large diameter steel pipe. Typically, Thompson works under contracts, awarded after competitive bids, for water transmission, water and sewage treatment, or power plant projects.

Thompson experienced a satisfactory year in 1981 following an exceptional year in 1980. A continuation of the current economic condition may delay a full return to the performance of 1980.

Summary

As Canada's market share leader in both furnace and air conditioning manufacturing, ICG will continue its dominant role in product research and development of more fuel efficient climate control products. In the United States, we plan to continue to build our important water transmission pipe business while actively exploring energy products manufacturing and distribution opportunities across the country.

INTER-CITY GAS CORPORATION
TEN YEAR SUMMARY OF OPERATIONS

In Thousands of Dollars	1981	1980	1979
Operating revenue	566,397	417,178	454,383
Operating costs			
Cost of sales	384,439	271,441	333,894
Operating, selling and administrative expenses	95,590	73,827	68,329
Depreciation and depletion	18,717	15,314	12,843
	498,746	360,582	415,066
	67,651	56,596	39,317
Equity in net income of Canadian Hydrocarbons	–	—	—
Equity in net income of Canadian Homestead Oils	–	—	2,187
Operating profit	67,651	56,596	41,504
Financial expenses	42,365	22,535	19,285
Income before income taxes	25,286	34,061	22,219
Income taxes	12,469	14,412	9,312
	12,817	19,649	12,907
Minority interest	(2,358)	(1,543)	(968)
Discontinued business	–	(228)	—
Extraordinary items	479	464	495
Net income for the year	10,938	18,342	12,434
Net income per common share	$0.74	$1.42	$1.43
Dividends paid			
Preference shares	983	1,592	1,619
Common shares	5,377	3,823	2,372
Dividends paid per common share	.40	32	.31
Fixed assets (cost)	533,523	430,898	289,244
Common shareholders' equity	135,098	128,951	54,967
Number of common shares outstanding	13,590†	13,437†	7,889†
Book value per share	$9.94	$9.60	$6.97

*These figures have been adjusted to reflect two-for-one stock splits that took place in the years 1971 and 1973.
†After deducting shares held by subsidiary companies net of minority interest.

This summary represents the historical reported results of the Company's operations. Prior years' amounts are not restated to reflect acquisitions or disposals of significant business activities.

1978	1977	1976	1975	1974	1973	1972
229,090	81,995	67,728	52,630	37,339	32,689	27,195
169,441	58,160	48,560	36,603	25,001	22,585	18,979
33,555	9,943	8,409	6,941	5,384	4,713	3,854
7,076	3,258	2,215	1,648	919	797	668
210,072	71,361	59,184	45,192	31,304	28,095	23,501
19,018	10,634	8,544	7,438	6,035	4,594	3,694
1,758	2,852	1,207	—	—	—	—
713	—	—	—	—	—	—
21,489	13,486	9,751	7,438	6,035	4,594	3,694
11,386	7,439	4,330	2,642	2,249	2,136	1,593
10,103	6,047	5,421	4,796	3,786	2,458	2,101
2,410	737	1,572	2,174	1,659	1,003	547
7,693	5,310	3,849	2,622	2,127	1,455	1,554
(505)	—	—	—	—	(3)	(11)
— —	—	—	—	—	—	—
121	(188)	—	—	—	—	—
7,309	5,122	3,849	2,622	2,127	1,452	1,543
$1.21	$0.94	$0.73	$0.56	$0.45	$0.37	$0.43*
1,335	1,100	903	713	537	352	362
1,570	1,160	1,031	825	683	378	248
.28	.27	.24	.24	.20	.12	.09*
267,508	66,606	60,393	52,832	48,895	39,288	35,226
42,657	17,431	14,549	9,625	8,413	7,503	5,615
7,162†	4,297	4,296	3,436	3,416	3,411	2,763*
$5.96	$4.06	$3.39	$2.80	$2.46	$2.20	$2.03*

P. Marriott,
Senior Vice-President
and Controller

1981 Compared with 1980

Operating results for 1981 were severely affected by abnormally warm weather throughout the heating season, the adverse effects of the National Energy Program through the introduction of new taxes as well as the downturn which it caused in oil and gas activities in general, record high interest rates and a general slow-down in economic activity.

Although record levels of operating revenues and operating profits were achieved, net income to common shareholders decreased from $16,750,000 in 1980 to $9,955,000 in 1981. On a per share basis, the increase in the weighted average number of common shares outstanding from 11.8 million in 1980 to 13.5 million in 1981 resulting from the amalgamation in 1980 with Canadian Homestead had a further dilutive effect on the computation of net income per common share. Operating revenues increased in all divisions from 1980 to 1981 and operating profits increased in all divisions, with the exception of the Liquid Gas Division. Information by industry segment and geographic area for the past three years and selected financial data for the past five years are presented in Notes 20 and 18 to the financial statements, respectively, and should be read in conjunction with this discussion.

Operating Revenue

The most significant factor affecting the increase in revenues has been the acquisition of KeepRite Inc. which contributed $86,374,000 to operating revenues. Other divisions increased their revenues by $62,845,000 or 15%. In the Resources Division, crude oil production decreased from 1980, but higher volume sales of natural gas and gas liquids, accounted for the increase in revenues. Although price increases were realized on all products, these were mostly offset by the Petroleum and Gas Revenue Tax. Volume sales were down in both the Utilities and Liquid Gas Divisions. Weather, which during 1981 was approximately 12% warmer than 1980, slow-downs in the lumber and oilfield drilling industries in Canada and conservation efforts in the United States, accounted for the decrease in volume. The increase in revenues in these divisions resulted from rate of return increases and pass-through increases for the cost of purchased product. Increased sales of industrial gases and increased sales on carburetion equipment related to the entry into the auto-propane market, also account for a portion of this increase.

Operating Profit

Excluding the contribution to operating profit from KeepRite of $9,260,000, operating profits from the remaining operations increased by $1,795,000. Operating profits in the Resources Division increased as a result of higher sales revenues offset partly by higher production, operating and administrative expenses. In the Utilities Division, volume sales were lower but rate of return increases along with greater revenues from design, engineering and consulting work resulted in operating profits being higher than in 1980. In the Liquid Gas Division, increased selling prices for propane and gasoline more than offset the lower volumes and resulted in higher gross profits. However, this increase was offset by higher operating expenses related to the start-up of the new ICG Auto-Propane® and Industrial Gas ventures and inflationary increases in other operating expenses. Operating profits of the Manufactured Products Division in Canada increased both as a result of the acquisition of KeepRite and from higher

volume sales. In the United States, general economic conditions and a more competitive market, reduced volumes and operating profits.

Financial Expenses

Increases in operating profits have been completely eroded by increased financial expenses. Prime lending rates averaged approximately 5 percentage points higher in 1981 than in 1980. This factor, plus increased borrowings to finance capital expenditures and the acquisition of KeepRite, resulted in total interest costs being $26,923,000 greater than 1980. The amount of interest capitalized increased substantially from 1980 as a result of a significant increase in the level of exploration expenditures and the higher interest rates.

Income Taxes

The effective rate of income taxes on consolidated income before income taxes has increased from 42.3% in 1980 to 49.3% in 1981. This increase is due almost entirely to the Petroleum and Gas Revenue Tax. This tax, which amounted to $3,037,000 in 1981, was introduced in the National Energy Program in late 1980 effective January 1, 1981, and is a non-deductible expense in computing corporate income taxes. Had this tax not been imposed, income before income taxes would have been $3,037,000 greater and the effective tax rate would have been approximately 44%.

1980 Compared with 1979

In comparing 1980 results with 1979, volume sales were greater or level with the prior year in all divisions except Utilities where industrial demand was much lower. Revenue and operating profit increases resulted from increased volume from gas plants coming on-stream and from strong demand for the Company's water transmission products. Increased selling prices for most products were offset by increased operating expenses, primarily the cost of natural gas and propane purchased in the Utilities and Liquid Gas Division, respectively. Financial expenses increased as a result of a greater level of borrowings and interest rates which were approximately 2% higher than in 1979. The effective rate of income taxes was the same in both 1979 and 1980.

Minority Interest and Other Items

The fluctuations in the minority interest expenses from 1979 through to 1981 reflects the amalgamation in April, 1980 of Canadian Homestead (previously 49% owned) and the acquisition in May, 1981 of a 65% interest in KeepRite Inc. Results of operations in 1979 and 1980 include petroleum operations and certain exploration operations in the United States which were sold in 1980. These have been reflected as discontinued business in each of those years. Extraordinary items in each of the past three years consist primarily of income tax credits arising in subsidiary companies through the application of prior years' tax losses carried forward.

Capital Resources and Liquidity

As indicated in last year's report, the Company has entered into a long-term credit agreement secured by oil and gas properties with a major Canadian chartered bank. This agreement provides the Company with up to $200,000,000 in term bank loans and $100,000,000 in guarantees of private placement notes. To December 31, a total of $98,885,000 has been drawn on this term credit facility.

The proceeds were utilized to repay certain term and demand bank loans, reduce the working capital deficiency and finance exploration expenditures in 1981. In the three years prior to 1981, the Company financed most of its capital requirements in excess of funds provided from operations and other sources through short-term bank advances and term bank loans of short duration. This was done as an interim measure through the period when the Company was consolidating its holdings in Canadian Hydrocarbons and Canadian Homestead and disposing of its unprofitable operations. The restructuring of borrowings made during this period has essentially been completed with the long-term credit facility. To date, no commitments have been made for the placement of notes provided under the guarantee feature of the long-term credit arrangement.

Despite substantial lower earnings, working capital provided from operations in 1981 slightly exceeded that of 1980. Combined with the debt restructuring referred to above, this has resulted in a decrease in the working capital deficiency of $45,813,000. The working capital ratio at December 31 now stands at1:1.14 compared to 1:1.52 in 1980 and 1:1.30 in 1979.

In 1982, fixed charges which are defined by the Company to include interest on all current and long-term debt, capital expenditures required to maintain existing capacity, dividends, long-term debt repayments (including capitalized lease obligations), preference share redemptions, and operating lease commitments, will approximate $110,000,000. Of this amount, approximately $90,000,000 will be financed by cash flows generated from operations. The projected increase in the net cash deficiency of approximately $20,000,000 during 1982 can be accommodated through existing operating lines of credit. In addition, the long-term credit facility provides the Company with adequate resources to fund capital expenditures for new and future productive capacity.

The debt/equity ratio of the Company has increased from a ratio of just slightly in excess of 1:1 in 1980 to 1.67:1 in 1981. This has resulted primarily from restructuring the working capital deficit into a long-term credit facility. While this ratio is not an undesirable level at which to operate, management believes it is in the best long-term interests of the Company and, consequently, its shareholders, to improve this ratio through increased equity financing. Current general economic conditions and more specifically, capital market conditions, are not conducive to raising either long-term debt or equity financing at a reasonable cost. However, management will continue to review all alternatives on an ongoing basis to assess and identify appropriate opportunities for improving the Company's capital resources.

Outlook for 1982

Early 1982 has seen a moderation in interest rates, although they are still higher than 1980 levels, and a return to more normal weather patterns across our customer service area. The new federal/provincial agreements on oil pricing and revenue sharing in Canada provide for increased prices for producers. However, changes in existing taxes and the introduction of new taxes will negate much of the revenue increases. Furthermore, we are now in the midst of a severe economic recession which is affecting virtually all business sectors. Therefore, while early indications point to an improvement in 1982 results over 1981, it is apparent that the Company must look beyond 1982 for a return to the levels of growth in earnings and income per share achieved in1980 and prior years.

INTER-CITY GAS CORPORATION
CONSOLIDATED STATEMENT OF INCOME

For the Years Ended December 31, 1981 and 1980 and 1979

In Thousands of Dollars	1981	1980	1979
Operating Revenue (Note 20)	**566,397**	417,178	339,192
Operating Costs			
Cost of sales	**384,439**	271,441	221,819
Operating, selling and administrative expenses	**95,590**	73,827	61,683
Depreciation and depletion	**18,717**	15,314	12,371
	498,746	360,582	295,873
Operating Profit (Note 20)	**67,651**	56,596	43,319
Financial Expenses			
Interest on long-term debt	**29,721**	14,711	12,015
Other interest	**21,907**	9,994	5,918
Interest capitalized	**(11,474)**	(3,261)	(1,096)
Amortization of other assets	**907**	491	605
Loss on foreign exchange	**1,304**	600	359
	42,365	22,535	17,801
Income Before Income Taxes	**25,286**	34,061	25,518
Provision for Income Taxes (Note 13)			
Current	**2,840**	7,998	7,609
Deferred	**9,629**	6,414	3,222
	12,469	14,412	10,831
Income After Income Taxes	**12,817**	19,649	14,687
Minority Interest in Subsidiary Companies			
KeepRite Inc. (Note 2)	**1,970**	–	–
Others	**388**	1,543	2,711
	2,358	1,543	2,711
Income from Continuing Operations	**10,459**	18,106	11,976
Discontinued Business	**—**	(228)	(802)
Extraordinary Items			
Gain on disposal of subsidiary company	**—**	–	364
Reduction of current income taxes on application of prior years' losses	**479**	464	896
	479	464	1,260
Net Income for the Year (Note 14)	**10,938**	18,342	12,434

INTER-CITY GAS CORPORATION
CONSOLIDATED BALANCE SHEET

As at December 31, 1981 and 1980

In Thousands of Dollars	1981	1980
ASSETS		
Current Assets		
Cash and short term deposits	**6,127**	4,559
Accounts and notes receivable less allowance for doubtful accounts; 1981 – $2,581; 1980 – $2,011 (Note 3)	**107,592**	87,332
Income taxes recoverable	**6,568**	4,048
Inventories (Notes 3 and 4)	**79,790**	47,008
Prepaid expenses	**2,717**	708
	202,794	143,655
Investments		
Notes and mortgages receivable (Note 5)	**14,562**	23,816
Shares in and advances to affiliated companies (Note 6)	**5,959**	3,134
Employee share purchase plan loans (Note 7)	**4,909**	3,992
	25,430	30,942
Fixed Assets (Notes 3 and 8)		
Property, plant and equipment – at cost	**533,523**	430,898
Accumulated depreciation and depletion	**130,571**	107,384
	402,952	323,514
Other Assets and Deferred Charges at cost, less amortization		
Goodwill	**10,039**	269
Financing expenses	**2,693**	1,570
Other deferred costs	**5,052**	2,269
	17,784	4,108
	648,960	502,219

On behalf of the Board

Director

Director

In Thousands of Dollars	1981	1980
LIABILITIES		
Current Liabilities		
Bank advances (Note 3)	**118,961**	100,350
Accounts payable and accrued liabilities	**87,758**	82,054
Income taxes payable	**4,367**	2,729
Current maturities of long-term debt	**9,213**	23,261
Deferred income and deposits	**10,801**	9,380
	231,100	217,774
Long-Term Debt (Notes 3 and 9)	**205,694**	99,579
Customers' Contributions in Aid of Construction	**10,002**	3,132
Deferred Income Taxes (Note 13)	**44,877**	34,317
Minority Interests in Subsidiaries (Note 10)	**11,182**	6,708
	502,855	361,510
REDEEMABLE PREFERENCE SHARES (Note 11)	**11,007**	11,758
COMMON SHAREHOLDERS' EQUITY		
Stated Capital (Note 12)	**123,258**	121,689
Retained Earnings	**40,821**	36,243
	164,079	157,932
Common Shares of the Company Held by Subsidiaries (5,990,985 shares – at cost)	**28,981**	28,981
	135,098	128,951
	648,960	502,219

INTER-CITY GAS CORPORATION
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended December 31, 1981, 1980 and 1979

In Thousands of Dollars	**1981**	1980	1979
Working Capital Provided			
From continuing operations (Note 15)	**42,003**	41,211	32,086
Extraordinary items			
Proceeds on disposal of subsidiary	**–**	–	3,800
Reduction of income taxes	**479**	464	896
	479	464	4,696
Long-term debt issued	**142,937**	25,420	14,586
Proceeds from sale of property, plant and equipment	**2,368**	2,779	4,707
Proceeds from issue of common shares	**1,569**	2,120	3,867
Notes, mortgages, customer contributions and other	**17,045**	7,018	2,779
Working capital of KeepRite Inc. at January 1, 1981	**9,680**	–	–
Discontinued business – net	**–**	2,286	(6,271)
	173,599	39,623	19,668
	216,081	81,298	56,450
Working Capital Applied			
Additions to property, plant and equipment	**89,312**	66,018	46,804
Repayment of long-term debt	**43,030**	26,921	13,627
Investment in KeepRite Inc.	**19,011**	–	–
Acquisition of manufacturing plant and operations	**1,554**	–	–
Dividends to shareholders	**6,360**	5,415	3,991
Dividends to minority shareholders of subsidiary companies	**1,120**	654	684
Notes, mortgages, other assets and deferred charges	**5,317**	2,224	4,678
Employee share purchase plan loans (net)	**917**	1,934	412
Shares in and advances to affiliated companies	**2,825**	1,921	1,213
Redemption of preference shares	**751**	6,953	86
Purchase of minority interest common and preferred shares and redemption of preferred shares held by minority interests	**71**	5,121	3,596
	170,268	117,161	75,091
Increase (Decrease) in Working Capital Deficiency (Note 15)	**(45,813)**	35,863	18,641
Working Capital Deficiency – Beginning of the year	**74,119**	38,256	19,615
Working Capital Deficiency – End of the year	**28,306**	74,119	38,256

INTER-CITY GAS CORPORATION
CONSOLIDATED STATEMENT OF RETAINED EARNINGS

For the Years Ended December 31, 1981, 1980 and 1979

In Thousands of Dollars	**1981**	1980	1979
Balance – beginning of the year	**36,243**	23,316	14,873
Net income for the year	**10,938**	18,342	12,434
	47,181	41,658	27,307
Dividends paid –			
First preference shares, Series B	**349**	380	395
First preference shares, Series C	**405**	420	420
Second preference shares, Series A	**111**	114	117
Second preference shares, Series B	**118**	122	126
Third preference shares, Series A	**—**	556	561
Common shares	**5,377**	3,823	2,372
	6,360	5,415	3,991
Balance – end of the year	**40,821**	36,243	23,316

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheets of Inter-City Gas Corporation as at December 31, 1981 and 1980, and the related consolidated statements of income, retained earnings and changes in financial position for the years ended December 31, 1981, 1980 and 1979. Our examinations were made in accordance with generally accepted auditing standards and, accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the consolidated financial position of the Company as at December 31, 1981 and 1980 and the consolidated results of its operations and the changes in its financial position for the years ended December 31, 1981, 1980 and 1979, in accordance with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Chartered Accountants

Winnipeg, Manitoba
March 2, 1982

INTER-CITY GAS CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 1981, 1980 and 1979

1. SIGNIFICANT ACCOUNTING POLICIES

Consolidation – The consolidated financial statements include the assets, liabilities and operating results of all subsidiary companies and have been prepared in accordance with generally accepted accounting principles in Canada which differ in certain respects with accounting principles in the United States. The differences between generally accepted accounting principles in Canada and the United States are described further in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission. The accounts of subsidiary companies are consolidated from the dates of acquisition on the basis of purchase accounting. The amounts by which the purchase price of subsidiary companies exceeds the fair value of the assets acquired have been treated as goodwill and are being amortized on a straight line basis over periods not exceeding forty years.

Foreign Exchange – The accounts of subsidiaries and divisions operating in the United States are translated into Canadian dollars at the rates of exchange on the balance sheet date for current assets and current liabilities, on the date of the transaction for other balance sheet accounts and at the average rate for the year for revenues and expenses. Gains and losses on translation are reflected in income. The rate of exchange, as at December 31, 1981, was \$1.1859 Cdn. = \$1.00 U.S. (1980 – \$1.1947 Cdn. = \$1.00 U.S.) and the average exchange rate for the year was \$1.1990 Cdn. = \$1.00 U.S. (1980 – \$1.1690 Cdn. = \$1.00 U.S.; 1979 – \$1.1715 Cdn. = \$1.00 U.S.).

Fixed Assets – Fixed assets are recorded at cost which includes interest and overhead amounts capitalized during the construction period, and also includes the full cost method of accounting for oil and gas properties. Substantially all of the Company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly, the accounts reflect only the Company's proportionate interest in such activites.

Depreciation is provided on a straight line basis at the following rates based on the estimated useful lives of the applicable assets:

Buildings	2½% – 10%
Transmission lines and distribution systems	1% – 5%
Customer installations	2% – 5%
Transportation equipment	18% – 30%
Machinery, equipment and furniture	10% – 20%

Fixed assets leased under capital leases are capitalized and depreciated on the same basis and rates as above.

Depletion of oil and gas properties and depreciation of well equipment, gathering systems and processing facilities are provided on a unit of production method based on estimated recoverable reserves except that costs and estimated reserves applicable to the Arctic Islands have been excluded from the calculation. Limited term interests in oil and gas leases are depleted over their remaining terms.

Inventories – Inventories of propane and petroleum products are valued at the lower of cost (first-in, first-out) and replacement cost. Inventories of merchandise, materials and supplies are valued at the lower of cost and net realizable value. Cost is determined for work-in-process and finished goods at standard prices and for raw materials and supplies on a first-in, first-out basis.

Deferred Charges – Amortization of financing expenses is provided on a straight line basis over the terms of the respective issues and amortization of other deferred charges is provided on a straight line basis over periods of three to twenty years.

Revenue Accounting – Gas sales revenue in the Utilities Division is recorded on the basis of meter readings plus an estimate of customer usage since the last meter reading. Prior to 1981, this policy has been followed by all subsidiaries within the Utilities Division with one exception. During 1981, this subsidiary changed its method of recording gas sales revenue to be consistent with all other utility subsidiaries which resulted in a revenue accrual adjustment of \$884,000.

Income Taxes – Certain subsidiaries in the Utilities Division provide only for income taxes currently payable in their financial statements and in the calculation of their rates of return for rate-making purposes. However, for all other operations, the Company provides for deferred income taxes on all timing differences between accounting income and taxable income, including those relating to exploration, development and acquisition of petroleum and natural gas properties.

2. ACQUISITION OF KEEPRITE INC.

During 1981, a subsidiary company acquired a 64.4% interest in KeepRite Inc. through the acquisition of 855,701 common shares for a total cash consideration of $19,011,000. The acquisition has been accounted for by the purchase method of accounting as follows:

		($000)
Net assets acquired		
Fixed assets – net book value	8,986	
Increase to fair market value	1,098	
	10,084	
Other non-current assets	213	
Working capital	10,968	21,265
Long-term debt	6,357	
Deferred income taxes	1,399	
Minority interest	4,371	12,127
		9,138
Goodwill on consolidation		9,873
Total purchase price paid		19,011

The goodwill is being amortized on a straight-line basis over forty years.

The consolidated statements of income and changes in financial position for the year ended December 31, 1981 have been prepared to include the results of KeepRite's operations on a consolidated basis for the entire year. Earnings attributable to the period prior to acquisition have been included in the minority interest deduction.

On a restated basis, comparative amounts of certain key operating figures for the years ended December 31, 1980 and 1979 would have been as follows:

	1980	1979
Consolidated Statement of Income	($000)	($000)
Operating revenue	492,983	404,296
Operating profit	64,848	50,959
Financial expenses	25,336	18,747
Income before income taxes	39,512	32,212
Provision for income taxes	16,574	13,533
Income after income taxes	22,938	18,679
Minority interests	4,832	6,703
Income from continuing operations	18,106	11,976
Discontinued business (net)	(228)	(802)
Extraordinary items	464	1,260
Net income for the year	18,342	12,434

	1980	1979
Consolidated Statement of Changes in Financial Position	$(000)	($000)
Working capital from operations	45,666	36,946
Long-term debt issued	31,420	14,586
Capital expenditures	69,792	47,868
Increase in working capital deficiency	42,556	15,465
Working capital deficiency at beginning of the year	21,883	6,418
Working capital deficiency at end of the year	64,439	21,883

On a pro-forma basis, assuming the acquisition had taken place on January 1, 1981, net income to common shareholders would have increased by $333,000 and net income per common share by $0.02. Similarly, had the acquisition taken place in a prior year, pro-forma net income to common shareholders for the years ended December 31, 1980 and 1979 would have increased by $146,000 and $238,000, respectively, and net income per common share would have increased by $0.01 and $0.03, respectively.

3. SECURITY FOR BANK ADVANCES, TERM LOANS AND OTHER LONG-TERM INDEBTEDNESS

Current bank loans, term bank loans and other long-term indebtedness are generally secured by a pledge of inventories, accounts receivable, certain shares of subsidiary companies, certain fixed assets and interest in certain petroleum and natural gas properties.

The company and its subsidiaries have operating lines of credit with Canadian and United States banks totalling $156,565,000 (1980 – $110,787,000) of which $118,961,000 has been utilized at December 31, 1981 (1980 – $100,350,000).

The weighted average interest rate on the outstanding bank advances at December 31, 1981 was 16.99% (1980 – 18.37%). Weighted average interest rates are calculated based on actual interest rates in effect and the bank advances outstanding as at December 31. The maximum amount of bank advances outstanding at any month-end during the year ended December 31, 1981 was $138,823,000 (1980 – $100,350,000).

The average bank advances outstanding, calculated by averaging month-end balances, during the year ended December 31, 1981 was $124,499,000 (1980 – $76,642,000). Virtually all of the Company's lines of credit are at bank prime rates which averaged 19.4% in Canada and 18.9% in the United States in 1981 (1980 – 14.4% and 15.3%).

In addition, the Company has a long-term credit agreement with a Canadian bank which provides for up to $200,000,000 in term bank loans and $100,000,000 in guarantees of private placement notes. To December 31, $98,885,000 has been drawn down on the term credit facility.

4. INVENTORIES

Inventories are classified as follows:

	1981	1980
	($000)	($000)
Propane and petroleum products	**10,563**	7,569
Prepaid natural gas	—	2,301
Raw materials	**21,177**	6,206
Work-in-process	**5,704**	2,498
Finished goods	**18,348**	7,113
Merchandise, materials and supplies	**23,998**	21,321
	79,790	47,008

5. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable consist primarily of the note receivable taken on the sale of certain U.S. petroleum and exploration operations in 1980. The balance at December 31, 1981 of $13,580,000 U.S. is due over the next eight years as follows:

$ 3,580,000 – in equal annual principal instalments of $447,500 plus interest at the greater of 13½% or 110% of prime.

$10,000,000 – in equal annual instalments of $2,120,000 including interest at 13½% per annum.

This note is secured by shares of the companies sold. The remaining notes and mortgages have varying repayment terms and interest rates.

6. SHARES IN AND ADVANCES TO AFFILIATED COMPANIES

The Company holds a 49% interest in Gaz-Inter-Cité Québec Inc. which has been granted thirty year exclusive natural gas distribution franchises for certain areas of the province of Quebec. Pipeline construction is currently in process and the first deliveries of gas are anticipated in late 1982.

The Company also holds interest in two corporations which were incorporated to seek franchises to distribute natural gas in the provinces of Nova Scotia and New Brunswick. The National Energy Board of Canada has approved the extension of the natural gas transmission pipeline to these provinces. However, at the present time, no decision has been made by provincial regulatory authorities with respect to the granting of these franchises.

At December 31, the Company's investment in common shares of Gaz Inter-Cité Québec Inc. is $2,998,000. Funding of the costs of the other companies for preliminary investigative work and other costs associated with the applications for these franchises has been provided by capital contribution and advances. As at December 31, the Company's total investment, including the investment in and advances to Gaz Inter-Cité Québec Inc., is as follows:

	1981	1980
	($000)	($000)
Shares	3,053	1,775
Advances	2,906	1,359
	5,959	3,134

7. EMPLOYEE SHARE PURCHASE PLAN

During 1981, 91,400 common shares (1980 – 146,500) were purchased by employees under the terms of the share purchase plan. In addition, $436,000 was repaid by employees to the Company. The balance due from employees at December 31, 1981 amounted to $4,909,000 (1980 – $3,992,000). These loans are non-interest bearing.

8. FIXED ASSETS

Property, plant and equipment are classified as follows:

	1981			1980
	Cost	Accumulated Depreciation and Depletion	Net Book Value	Net Book Value
	($000)	($000)	($000)	($000)
Petroleum and natural gas properties, leases and exploration costs	216,768	39,981	176,787	145,374
Well equipment, gathering systems and processing facilities	47,184	14,492	32,692	24,030
Transmission lines and distribution systems	112,143	15,802	96,341	84,042
Customer installations	58,201	25,687	32,514	21,923
Machinery, equipment and furniture	43,624	18,789	24,835	17,031
Transportation equipment	23,077	11,333	11,744	11,850
Buildings	25,931	4,487	21,444	14,757
Land	6,595	—	6,595	4,507
	533,523	130,571	402,952	323,514

Details of assets leased under capital leases and included in fixed assets are as follows:

	1981			1980
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	($000)	($000)	($000)	($000)
Customer installations	10,493	1,799	8,694	4,308
Transportation equipment	9,828	2,843	6,985	3,278
Machinery and equipment	507	242	265	–
	20,828	4,884	15,944	7,586

9. LONG-TERM DEBT

The details of long-term debt are as follows:

	1981	1980
	($000)	($000)
Term bank loans, secured, bearing interest at rates which vary with the prime bank rate repayable during the period 1982 to 1996	**157,750**	65,915
Sinking fund debentures bearing interest at rates varying from 6% to 11% due in the years 1982 to 1994	**17,380**	18,659
First mortgage bonds issued in series bearing interest at 6% due in the years 1982 to 1985	**1,191**	6,366
Subordinated debenture bearing interest at 5% due in 1990	**2,918**	3,239
Promissory notes bearing interest at rates varying from $7\frac{1}{4}$% to $10\frac{3}{4}$% due in the years 1982 to 1996	**16,805**	17,963
Sundry notes and mortgages	**2,222**	2,368
Capitalized lease obligations bearing interest at rates varying from 5% to the prime bank rate repayable during the period 1982 to 1991	**16,641**	8,330
	214,907	122,840
Current maturities included in current liabilities	**9,213**	23,261
	205,694	99,579

Amounts repayable in United States funds are translated into Canadian funds at the historical exchange rates in effect at their respective dates of issue except for current maturities which are translated at the year-end exchange rate. If all amounts repayable in United States funds were translated at the exchange rate in effect at year-end, it would result in an increase in long-term debt of approximately $3,729,000 at December 31, 1981 ($5,920,000 at December 31, 1980).

Under the provisions of the various agreements and indentures, excluding capitalized lease obligations, the Company is required to make the following installments during the next five years:

Year	($000)
1982	6,830
1983	13,876
1984	16,588
1985	10,055
1986	9,790

Minimum lease payments required under capital leases are as follows:

Year	($000)
1982	4,853
1983	4,742
1984	4,399
1985	3,556
1986	2,479
subsequent years	8,191
Total minimum lease payments	28,220
Less – amount representing interest	11,579
Balance of capitalized lease obligations	16,641

10. MINORITY INTERESTS IN SUBSIDIARIES

The minority interests are comprised of the following:

	1981	1980
	($000)	($000)
Preferred shares in Canadian Hydrocarbons Limited and ICG Utilities Ltd.	**5,829**	5,900
Equity interest in –		
KeepRite Inc.	**4,487**	–
Castle Oil & Gas Limited	**840**	774
Vancouver Island Gas Company Limited	**26**	34
	11,182	6,708

11. REDEEMABLE PREFERENCE SHARES

(a) Authorized

600,000 first preference shares issuable in series of which 265,000 have been designated as Series B shares carrying a cumulative dividend entitlement of $1.65 per share and redeemable at $22.00 per share; and 200,000 have been designated as Series C shares carrying a cumulative dividend entitlement of $2.10 per share and redeemable at $21.00 per share.

262,468 second preference shares issuable in series of which 97,268 have been designated as Series A shares carrying a cumulative dividend entitlement of $1.30 per share and redeemable at a price not to exceed $20.63 per share; and 90,200 have been designated as Series B shares carrying a cumulative dividend entitlement of $1.50 per share and redeemable at $20.75 per share.

10,000,000 third preference shares issuable in series.

The redemption privileges on all preference shares are at the option of the Company only. The preference shares have voting privileges at all meetings of shareholders, except meetings at which only holders of another class or series of shares are entitled to vote.

(b) Issued and fully paid

		1981		1980	
		Number	**Amount**	Number	Amount
			($000)		($000)
First preference shares	– Series B	**202,350**	**4,047**	220,900	4,418
	– Series C	**186,000**	**3,720**	200,000	4,000
Second preference shares	– Series A	**83,873**	**1,678**	86,373	1,728
	– Series B	**78,110**	**1,562**	80,610	1,612
			11,007		11,758

(c) Purchase fund requirements

First preference shares Series B

To offer to purchase 13% of the original issue amount in each of the years 1982 to 1986 and 5% for each year thereafter. In 1981, 18,550 shares were cancelled (1980 – 18,550; 1979 – nil).

First preference shares Series C

To offer to purchase 13% of the original issue amount in each of the years 1982 to 1986 and 5% for each year thereafter. In 1981, 14,000 shares were cancelled (1980 and 1979 – nil).

Second preference shares Series A and B

To purchase annually in the market, a minimum of 3% of the original issue amount outstanding at the end of the preceding year. In 1981, 2,500 Series A and 2,500 Series B shares were purchased and cancelled (1980 – 2,045 and 2,075; 1979 – 2,100 and 2,200).

The minimum purchase requirements for all series in the next five years are as follows:

Year	($000)
1982	1,306
1983	1,304
1984	1,300
1985	1,298
1986	1,296

12. STATED CAPITAL

In addition to the redeemable preference shares, the authorized stated capital of the Company includes 50,000,000 common shares (1979 – 20,000,000).

Changes in the issued and outstanding common shares for the years 1981, 1980 and 1979 are as follows:

	1981		1980		1979	
	Number	**Amount**	Number	Amount	Number	Amount
		($000)		($000)		($000)
Issued and fully paid – beginning of the year	**19,317,733**	**121,689**	8,926,568	42,024	8,199,183	38,157
Issued upon amalgamation with Canadian Homestead Oils Limited	—	—	10,252,431	77,545	–	–
Issued in exchange for shares of Canadian Hydrocarbons Limited	—	—	–	–	111,193	1,001
Issued on exercise of share purchase warrants	**61,614**	**216**	35,284	123	488,192	1,714
Issued to employees under the employee share purchase plan	**91,400**	**1,353**	146,500	2,258	128,000	1,152
Cancelled against loans under the employee share purchase plan	—	—	(43,050)	(261)	–	–
Issued and fully paid – end of the year	**19,470,747**	**123,258**	19,317,733	121,689	8,926,568	42,024

13. INCOME TAXES

(a) A reconciliation between the statutory and the effective rate of income taxes is provided as follows:

	1981	1980	1979
	($000)	($000)	($000)
Income before income taxes	**25,286**	34,061	25,518
Federal statutory tax rate	**47.8%**	47.8%	46%
Computed income taxes	**12,086**	16,281	11,738
Increase (decrease) in income taxes resulting from –			
Petroleum and Natural Gas Revenue Tax	**1,475**	–	–
Alberta Royalty Tax Credits	**(1,204)**	(1,287)	(1,855)
Regulated natural gas divisions	**(980)**	(1,356)	69
Inventory allowance	**(831)**	(359)	(306)
Excess of non-deductible oil and gas expenditures over tax deductions	**429**	132	(176)
Amortization of goodwill	**318**	188	99
Foreign exchange	**329**	465	126
Non-deductible expenses and losses	**911**	428	940
Sale of non-depreciable assets	**131**	(460)	–
Investment tax credit	**(386)**	(171)	(566)
Other	**191**	551	762
Effective income taxes	**12,469**	14,412	10,831
Effective rate of income taxes	**49.3%**	42.3%	42.4%

The federal statutory tax rate for 1981 and 1980 includes the corporate surtax introduced in 1980.

(b) The components of income before taxes and income tax expense are as follows:

	1981	1980	1979
	($000)	($000)	($000)
Income before income taxes			
– Canada	**16,456**	27,193	24,524
– United States	**8,830**	6,868	994
	25,286	34,061	25,518
Current income tax expense			
– Canada	**1,356**	5,096	6,406
– United States	**1,484**	2,902	1,203
	2,840	7,998	7,609
Deferred tax expense			
– Canada	**7,864**	5,634	3,447
– United States	**1,765**	780	(225)
	9,629	6,414	3,222
	12,469	14,412	10,831

(c) Deferred income tax expense results from timing differences in the recognition of revenues and expenses for income tax purposes and financial statement purposes. The source of these differences are as follows:

	1981	1980	1979
	($000)	($000)	($000)
Excess of tax depreciation over book depreciation	**(289)**	1,390	752
Drilling and exploration costs claimed net of book depletion	**6,717**	2,533	1,960
Excess of items capitalized for book purposes and expensed for tax purposes	**3,182**	1,858	625
Foreign tax credit	**(102)**	–	–
Other	**121**	633	(115)
Deferred income tax expense	**9,629**	6,414	3,222

If tax allocation had been followed in respect of all timing difference between accounting income and taxable income in respect of certain subsidiaries in the Utilities Division, the provision for deferred income taxes would have increased and consolidated net income would have decreased by $980,000 (1980 – $1,356,000; 1979 – increase in net income of $69,000). At December 31, 1981, the accumulated deferred income taxes would have amounted to approximately $6,240,000 1980 – $5,260,000), in addition to the amounts recorded in the accounts.

14. NET INCOME PER COMMON SHARE

The net income per common share is calculated on the weighted average number of shares outstanding during the respective years as follows:

	1981	1980	1979
	($000)	($000)	($000)
Income for the year from continuing operations	**10,459**	18,106	11,976
Less dividends on preference shares	**983**	1,592	1,619
Income to common shareholders from continuing operations	**9,476**	16,514	10,357
Discontinued business	**—**	(228)	(802)
Extraordinary items	**479**	464	1,260
Net income to common shareholders	**9,955**	16,750	10,815
Weighted average number of shares outstanding during the year	**19,417,880**	16,284,209	8,605,390
Less – weighted average of shares held by subsidiaries	**5,880,752**	4,468,063	1,034,655
	13,537,128	11,816,146	7,570,735
Net income per common share			
– from continuing operations	**$0.70**	$1.40	$1.37
– after discontinued business and extraordinary items	**$0.74**	$1.42	$1.43

15. STATEMENT OF CHANGES IN FINANCIAL POSITION

(a) Working capital provided from operations is computed as follows:

	1981	1980	1979
	($000)	($000)	($000)
Net income from continuing operations before extraordinary items	**10,459**	18,106	11,976
Add (deduct) items not affecting working capital			
Depreciation and depletion	**18,717**	15,314	12,371
Amortization of other assets and deferred charges	**1,161**	694	1,351
Deferred income taxes	**9,746**	6,447	4,208
Gain on disposal of property, plant and equipment	**(438)**	(893)	(531)
Minority interest in subsidiaries	**2,358**	1,543	2,711
	42,003	41,211	32,086

(b) The increase (decrease) in the working capital deficiency is represented by:

	1981	1980	1979
	($000)	($000)	($000)
Increase (decrease) in current assets			
Cash and short term deposits	**1,568**	(7,684)	(951)
Accounts and notes receivable	**20,260**	6,357	15,073
Income taxes recoverable	**2,520**	1,808	(3,510)
Inventories	**32,782**	9,971	940
Prepaid expenses	**2,009**	(173)	(456)
	59,139	10,279	11,096
Increase (decrease) in current liabilities			
Bank advances	**18,611**	33,614	14,240
Accounts payable and accrued liabilities	**5,704**	267	15,481
Income taxes payable	**1,638**	371	377
Current maturities of long-term debt	**(14,048)**	8,004	(1,630)
Deferred income and deposits	**1,421**	3,886	1,269
	13,326	46,142	29,737
	(45,813)	35,863	18,641

16. PENSION PLANS

The Company and its subsidiaries have various pension plans covering substantially all permanent full-time employees. The Company makes contributions to the plans based on salary levels. The total pension expense for 1981 was $1,053,000 (1980 – $680,000), including contributions in respect of unfunded past service benefits. A comparison of accumulated plan benefits and plan net assets is as follows:

	Canada	United States
	($000)	($000)
Actuarial present value of accumulated plan benefits		
– vested	8,689	1,525
– non-vested	–	1,353
	8,689	2,878
Net assets available for benefits	9,007	1,270

The figures for plans covering United States based employees are in U.S. dollars.

Actuarial valuation of the Canadian plans assumes that benefits are immediately vested with the employees. The assumed rates of return used in determining the actuarial present value of accumulated plan benefits ranged from 5% to 6½% for the Canadian plans and 6% to 7% for the United States plans. Valuation dates range from January, 1979 to January, 1981 for the Canadian plans and from January, 1981 to June, 1981 for the United States plans. Unfunded liabilities for past service benefits are being funded by payments of $60,000 U.S. and $117,000 U.S. over periods of ten and twenty-five years, respectively.

17. LEASE COMMITMENTS

The approximate aggregate minimum annual rentals under long-term leases excluding capital leases at December 31, 1981, are as follows:

Year	($000)
1982	4,186
1983	3,803
1984	3,379
1985	3,065
1986	2,516
subsequent years	7,699
	24,648

18. SELECTED FINANCIAL DATA

Selected financial data for the five years ended December 31, 1977 to 1981 is as follows. Amounts are in thousands of dollars except per share amounts.

	1981	1980	1979	1978	1977
Operating revenue	**566,397**	417,178	339,192	305,513	283,340
Net income for the year					
– continuing operations	**10,459**	18,106	11,976	6,953	4,707
– discontinued business and extraordinary items	**479**	236	458	356	415
	10,938	18,342	12,434	7,309	5,122
Net income per common share					
– continuing operations	**$0.70**	$1.40	$1.37	$1.14	$0.84
– discontinued business and extraordinary items	**$0.04**	$0.02	$0.06	$0.07	$0.10
	$0.74	$1.42	$1.43	$1.21	$0.94
Dividends per common share	**$0.40**	$0.32	$0.31	$0.28	$0.27
Total assets	**648,960**	502,219	421,651	387,063	350,885
Long-term obligations	**216,701**	111,337	119,828	120,604	74,994

Long-term obligations includes long-term debt and redeemable preference shares.

19. QUARTERLY FINANCIAL DATA (Unaudited)

Summarized quarterly financial data is as follows. Amounts are in thousands of dollars except per share amounts.

	3 Months Ended				Year Ended
1981	Mar. 31	June 30	Sept. 30	Dec. 31	Dec. 31
Operating revenue	**153,829***	**122,674**	**119,335**	**170,559**	**566,397**
Gross profit	**46,401***	**39,641**	**36,408**	**59,508**	**181,958**
Net income (loss) after dividends on preference shares					
– before extraordinary item	4,396	159	(1,998)	6,919	9,476
– after extraordinary item	4,396	159	(1,998)	7,398	9,955
Net income (loss) per common share					
– before extraordinary item	**$0.33**	**$0.01**	**$(0.15)**	**$0.51**	**$0.70**
– after extraordinary item	**$0.33**	**$0.01**	**$(0.15)**	**$0.55**	**$0.74**
1980					
Operating revenue	116,384	82,302	83,529	134,963	417,178
Gross profit	40,557	29,391	29,524	46,265	145,737
Net income after dividends on preference shares					
– from continuing operations	6,455	1,699	856	7,504	16,514
– after discontinued business and extraordinary item	4,286	2,686	856	8,922	16,750
Net income per common share					
– from continuing operations	$0.82	$0.14	$0.06	$0.56	$1.40**
– after discontinued business and extraordinary item	$0.54	$0.22	$0.06	$0.66	$1.42**
1979					
Operating revenue	98,799	71,941	65,289	103,163	339,192
Gross profit	34,986	25,053	21,101	36,233	117,373
Net income (loss) after dividends on preference shares					
– from continuing operations	5,695	742	(494)	4,414	10,357
– after discontinued business and extraordinary items	6,106	1,918	(1,722)	4,513	10,815
Net income (loss) per common share					
– from continuing operations	$0.80	$0.10	($0.07)	$0.54	$1.37
– after discontinued business and extraordinary items	$0.85	$0.24	($0.23)	$0.57	$1.43

*Operating revenues and gross profit have been restated from the previously published quarterly report to March 31, 1981 to reflect the acquisition of KeepRite Inc. in May 1981.

**Net income per share by quarter does not add to the total for the year due to changes in the number of common shares outstanding during the year.

20. BUSINESS SEGMENTS

The following is an analysis of certain financial information by business lines and geographical areas for the three years ended December 31, 1981, 1980 and 1979 as it relates to revenue, operating profit, identifiable assets, capital expenditures and depreciation and depletion. Information for the years 1980 and 1979 has been restated to reflect the transfer of certain operations from the Liquid Gas Division to the Resources Division in 1981.

Intersegment sales are not material and are accounted for at prices comparable to normal, unaffiliated customers. Operating profit is total revenue less operating expenses which includes an allocation of corporate expenses. Identifiable assets include only those assets directly identifiable with those operations. Corporate assets consist primarily of notes receivable, employee share purchase plan loans, leasehold improvements, furniture and fixtures and deferred financing expenses.

	Operating Revenue			Operating Profit		
	1981	1980	1979	**1981**	1980	1979
	($000)	($000)	($000)	**($000)**	($000)	($000)
Resources						
– Canada	**44,030**	38,760	29,488	**25,688**	22,109	15,553
– United States	**5,332**	3,335	2,705	**4,019**	1,777	1,740
	49,362	42,095	32,193	**29,707**	23,886	17,293
Utilities						
– Canada	**88,171**	69,197	60,811	**7,572**	5,905	7,670
– United States	**61,108**	66,339	53,447	**3,960**	2,745	2,705
	149,279	135,536	114,258	11,532	8,650	10,375
Liquid Gas						
– Canada	**210,559**	175,618	143,224	**7,919**	13,355	12,599
Manufactured Products						
– Canada	**129,440**	34,181	28,471	**11,850**	2,076	1,280
– United States	**24,336**	26,345	21,046	**3,726**	5,845	1,772
	153,776	60,526	49,517	**15,576**	7,921	3,052
Interest income and other	**3,421**	3,403	–	**2,917**	2,784	–
	566,397	417,178	339,192	**67,651**	56,596	43,319

	Identifiable Assets			Capital Expenditures			Depreciation and Depletion Expense		
	1981	1980	1979	**1981**	1980	1979	**1981**	1980	1979
	($000)	($000)	($000)	**($000)**	($000)	($000)	**($000)**	($000)	($000)
Resources									
– Canada	**211,719**	185,544	45,267	**37,215**	30,986	26,561	**5,905**	5,444	4,455
– United States	**16,296**	9,110	5,890	**6,818**	2,854	763	**1,116**	1,120	625
	228,015	194,654	51,157	**44,033**	33,840	27,324	**7,021**	6,564	5,080
Utilities									
– Canada	**114,088**	96,945	80,169	**15,175**	9,938	5,623	**2,078**	1,816	1,629
– United States	**32,535**	32,539	26,034	**1,573**	1,232	1,148	**587**	577	451
	146,623	129,484	106,203	**16,748**	11,170	6,771	**2,665**	2,393	2,080
Liquid Gas									
– Canada	**138,437**	111,196	92,622	**25,661**	18,095	11,343	**6,498**	5,159	4,551
Manufactured Products									
– Canada	**89,977**	19,714	15,155	**1,526**	540	156	**1,483**	224	175
– United States	**16,169**	14,951	13,636	**1,004**	1,340	750	**462**	341	342
	106,146	34,665	28,791	**2,530**	1,880	906	**1,945**	565	517
Total Business Segments	**619,221**	469,999	278,773	**88,972**	64,985	46,344	**18,129**	14,681	12,228
Corporate Assets	**29,739**	32,220	4,724	**340**	1,033	460	**588**	633	143
Investment in Canadian Homestead	–	–	29,905	–	–	–	–	–	–
Assets of business discontinued in 1980	–	–	51,221	–	–	–	–	–	–
	648,960	502,219	364,623	**89,312**	66,018	46,804	**18,717**	15,314	12,371

21. OIL AND GAS PRODUCING ACTIVITIES

Additional information with respect to the oil and gas activities of the Company is presented as follows:

(a) Capitalized costs – Aggregate capitalized costs and related accumulated depreciation and depletion at December 31, by geographic area, are:

(i) Cost	Canada		U.S.	Total
	Excluding Arctic Islands	Arctic Islands		
1981	($000)	($000)	($000)	($000)
Petroleum and natural gas properties, leases and exploration costs	**165,462**	**31,020**	**20,286**	**216,768**
Production, processing and other equipment	**39,827**	**–**	**1,997**	**41,824**
	205,289	**31,020**	**22,283**	**258,592**
1980				
Petroleum and natural gas properties, leases and exploration costs	135,386	30,907	13,214	179,507
Production, processing and other equipment	35,109	–	1,560	36,669
	170,495	30,907	14,774	216,176
(ii) Accumulated depreciation and depletion.				
1981				
Petroleum and natural gas properties, leases and exploration costs	**32,991**	**–**	**6,990**	**39,981**
Production, processing and other equipment	**10,691**	**–**	**733**	**11,424**
	43,682	**–**	**7,723**	**51,405**
1980				
Petroleum and natural gas properties, leases and exploration costs	28,012	–	6,121	34,133
Production, processing and other equipment	9,571	–	597	10,168
	37,583	–	6,718	44,301

(b) Expenditures – Costs incurred in oil and gas activities for the years ended December 31, 1981, 1980 and 1979, by geographic area, are:

	1981		1980		1979	
	Canada	**U.S.**	Canada	U.S.	Canada	U.S.
	($000)	**($000)**	($000)	($000)	($000)	($000)
Property acquisition	**4,675**	**1,694**	5,717	29	5,326	30
Exploration	**24,055**	**3,906**	8,011	989	8,994	134
Development	**5,720**	**975**	16,574	1,836	9,404	575
	34,450	**6,575**	30,302	2,854	23,724	739
Production expenses	**4,719**	**376**	4,724	271	3,336	211
Depreciation and depletion	**5,849**	**1,116**	5,066	1,120	4,080	625

In addition to the above, exploration expenditures in the amount of $113,000 were incurred in the Arctic Islands in 1981 (1980 – $300,000).

(c) Revenues – Revenues from oil and gas producing activities, net of production costs, for the years ended Decemebr 31, 1981, 1980 and 1979 by geographic area, are as follows:

	1981	1980	1979
	($000)	($000)	($000)
Canada	**26,878**	25,068	19,291
United States	**4,956**	3,064	2,494
	31,834	28,132	21,785

22. SUPPLEMENTARY INFORMATION ON OIL AND GAS ACTIVITIES (Unaudited)

(a) Proved Reserves Net quantities of proved reserves of oil, gas and gas liquids as evaluated by independent petroleum consultants at December 31 are as follows:

	Oil and Gas Liquids (thousands of cubic metres)			Gas (millions of cubic metres)		
	1981	1980	1979	**1981**	1980	1979
Canada (excluding Arctic Islands)						
– proved developed	**1,483**	1,376	37	**6,711**	6,677	1,988
– proved undeveloped	**77**	65	2	**398**	406	671
	1,560	1,441	39	**7,109**	7,083	2,659
Arctic Islands*						
– proved developed	**–**	–	–	**–**	–	–
– proved undeveloped	**–**	–	–	**14,814**	14,814	–
	–	–	–	**14,814**	14,814	–
United States						
– proved developed	**129**	236	288	**235**	284	339
– proved undeveloped	**–**	–	–	**–**	–	–
	129	126	288	**235**	284	339
Total						
– proved developed	**1,612**	1,502	325	**6,946**	6,961	2,327
– proved undeveloped	**77**	65	2	**15,212**	15,220	671
	1,689	1,567	327	**22,158**	22,181	2,998
Share of Canadian Homestead Oils Limited net proved reserves	**–**	–	600	**–**	–	9,380

Changes in net quantities of proved reserves for the years ended December 31, 1981, 1980 and 1979 are as follows:

	Oil and Gas Liquids (thousands of cubic metres)		Gas (millions of cubic metres)		
	Canada	U.S.	Canada		U.S.
1979			Excluding Arctic Islands	Arctic* Islands	
Proved reserves – January 1, 1979	28	159	2,977	–	40
Revisions to estimates	14	136	(253)	–	285
Extensions, discoveries and additions	1	27	126	–	34
Production	(4)	(34)	(191)	–	(20)
Proved reserves – December 31, 1979	39	288	2,659	–	339
1980					
Revisions to estimates	189	(8)	(575)	–	7
Purchases of minerals-in-place	1,203	31	4,486	14,814	–
Extensions, discoveries and additions	83	9	780	–	–
Production	(73)	(27)	(267)	–	(8)
Sales of minerals-in-place	–	(167)	–	–	(54)
Proved reserves – December 31, 1980	1,441	126	7,083	14,814	284
1981					
Revisions to estimates	**83**	**6**	**(152)**	**–**	**(39)**
Extensions, discoveries and additions	**113**	**13**	**458**		**3**
Production	**(77)**	**(16)**	**(280)**	**–**	**(13)**
Proved reserves – December 31, 1981	**1,560**	**129**	**7,109**	**14,814**	**235**

*Production from reserves in the Arctic Islands cannot commence until a distribution network is in place to transport the product to market. Commencement of production in the Drake Point Main Gas Pool in the Arctic Islands is projected for 1986-1987 if the Arctic Pilot Project receives National Energy Board approval during 1982. A liquefied natural gas (LNG) scheme is proposed on Melville Island and contemplates transporting the product to the Eastern seaboard of Canada for distribution by ice breaking LNG tankers.

(b) Future net revenues from proved reserves

The following information has been computed in accordance with the procedures specified by the Securities and Exchange Commission in the United States. These procedures are designed to provide consistency among companies required to disclose this information. The assumptions made will not result in an amount representing fair market value nor do they provide the best estimate of the present value of cash flows that will be realized for the following reasons:

a) The calulations are based on prices and costs in effect at the end of 1981 with no provision for increases or decreases.
b) Probable reserves, which may ultimately become proved are excluded from the calculation.
c) In times of changing prices,the change in present value from one year to the next tends to be dominated by the changes in prices for crude oil and natural gas.

Estimated future net revenues (sales less royalties, operating expenses and development expenditures) at December 31, 1981, are as follows:

	Canada*	U.S.	Total
	($000)	($000)	($000)
Proved developed and undeveloped reserves			
1982	26,753	3,748	30,501
1983	39,431	3,083	42,514
1984	36,642	2,570	39,212
Remaining years	504,231	19,607	523,838
	607,057	29,008	636,065
Present value at 10%	273,943	16,412	290,355
Proved developed reserves only			
1982	27,195	3,748	30,943
1983	39,539	3,083	42,622
1984	37,318	2,570	39,888
Remaining years	475,139	19,607	494,746
	579,191	29,008	608,199
Present value at 10%	268,617	16,412	285,029
Present value at 10% of proved developed and undeveloped reserves as of December 31			
1981	273,943	16,412	290,355
1980	252,922	18,906	271,828
Present value at 10% of proved developed reserves as of December 31			
1981	268,617	16,412	285,029
1980	246,335	18,906	265,241

*No revenues are assigned to reserves in the Arctic Islands.

(c) Summary of oil and gas activities on the basis of reserve recognition accounting

The following information is presented in accordance with the rules for Reserve Recognition Accounting (RRA) as required by the Securities and Exchange Commission in the United States. Generally, under RRA, operating results depend upon additions to proved reserves from new field discoveries and extensions and revisions to RRA valuation of reserves proved in priôr years, and on costs incurred on acquisition, exploration and development activities.

This differs substantially from generally accepted accounting principles whereby the value of reserves is recognized in the financial statements only to the extent that they have been recovered and sold, and acquisition, exploration and development costs are initially deferred and written off on the unit of production method as reserves are produced.

While historical operating results may not be ideal as indications of future results, RRA results on a year-by-year basis also have some severe disadvantages. RRA seeks to reflect events relating to exploration and production as they occur. However, a number of years may lapse between the time exploration and development costs are incurred and when the economic results of those expenditures become known. Costs incurred in one year may lead to discoveries in later years. Also, estimates of proved reserves and their valuation can change significantly. Estimates of proved reserves are inherently imprecise, particularly for newly discovered reserves even though they are based on reasonable judgements and assessment. Subsequent development and production will necessitate revisions to present estimates. Further, the calculations are prepared on the basis of current selling prices and costs and a prescribed discount rate. Future RRA valuations will reflect prices and costs in effect at that time which management expects to be higher than current prices and costs.

For these reasons, the RRA results on a year-by-year basis should be reviewed with considerable caution. Management believes that a meaningful evaluation of RRA results can only be made in future years when data will be available to analyze the results of activities over a number of years.

The following information excludes amounts attributable to reserves in the Arctic Islands.

	1981	1980	1979
	($000)	($000)	($000)
Additions to proved reserves			
New field discoveries and extensions	**17,546**	23,845	3,985
Revisions to reserves proved in prior years			
Increases in prices	**25,458**	2,653	31,251
Interest factor-accretion of discount	**27,183**	8,428	5,846
Other (see note below)	**(26,521)**	(13,570)	(3,458)
Total revisions to proved reserves	**26,120**	(2,489)	33,639)
Total additions to proved reserves	**43,666**	21,356	37,624
Less related capital and exploration expenditures			
Acquisition of unproved properties	**6,369**	5,746	5,356
Exploration	**27,961**	9,000	9,128
Development	**6,695**	18,410	9,979
	41,025	33,156	24,463
Development costs considered in valuation of proved reserves	**(6,695)**	(18,410)	(9,979)
Total related costs	**34,330**	14,746	14,484
Earnings before other revenues, costs and expenses and income taxes	**9,336**	6,610	23,140
Deduct			
Administration, interest and other expenses	**7,894**	7,466	5,096
Investment and other income	**(809)**	(372)	(91)
	7,085	7,094	5,005
Earnings before income taxes	**2,251**	(484)	18,135
Provision for income taxes	**1,125**	(242)	9,067
Results of oil and gas producing operations on the basis of reserve recognition accounting	**1,126**	(242)	9,068

NOTE: The "other revisions" include the effect of a downward revision in estimated gas reserves in two areas and an increase in operating expenses and development costs due to the effect of inflation and a reassessment of anticipated future costs.

(d) Changes in present value of estimated future net revenues from proved reserves

	1981	1980	1979
	($000)	($000)	($000)
Balance – beginning of the year	**271,828**	84,282	58,464
Revisions to reserves proved in prior years	**26,120**	(2,489)	33,639
	297,948	81,793	92,103
New field discoveries and extensions	**17,546**	23,845	3,985
Purchase of reserves	**—**	175,912	–
Projected development costs incurred	**6,695**	18,410	9,979
Sales, net of operating expenses	**(31,834)**	(28,132)	(21,785)
Balance – end of the year	**290,355**	271,828	84,282

23. SUPPLEMENTARY INFORMATION AND INFLATION AND CHANGING PRICES (Unaudited)

The Financial Accounting Standards Board in the United States has recommended that supplementary information be presented in financial statements in an attempt to measure the impact of inflation on the Company's operations. This information is included int he Company's annual report on Form 10-K.

Directors
Robert G. Graham
Wayne R. Harding
Gordon P. Osler
J. Derek Riley
Donald S. Rogers
George C. Solomon
Alan Sweatman, Q.C.
Michael J. Walton

Stock Exchange Listings
Toronto Stock Exchange
American Stock Exchange
Winnipeg Stock Exchange

Solicitors
Thompson, Dorfman, Sweatman

Auditors
Coopers & Lybrand

Transfer Agents and Registrar
Guaranty Trust Company
Winnipeg, Toronto,
Calgary and Vancouver

Head Office
Inter-City Gas Building
444 St. Mary Avenue
Winnipeg, Manitoba
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The following table provides certain market information in respect of the Company's common shares for the years ended December 31, 1981 and 1980.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Market price per common share (Toronto Exchange)				
1981 High	$19.875	$19.25	$15.375	$12.00
Low	$14.75	$15.125	$ 8.125	$ 9.125
1980 High	$25.75	$20.375	$26.375	$23.875
Low	$10.50	$14.625	$16.50	$14.00
Dividends per commons share				
1981	$ 0.10	$ 0.10	$ 0.10	$ 0.10
1980	$ 0.08	$ 0.08	$ 0.08	$ 0.08

OFFICERS AND SENIOR MANAGERS

Corporate
R. G. Graham, President & Chief Executive Officer
D. S. Rogers, Executive Vice-President & Chief Operating Officer
P. Marriott, Senior Vice-President & Controller
J. E. Carstairs, Vice-President & Secretary
H. C. Coppen, Vice-President, Marketing
W. R. Harding, Vice-President, Corporate Development
R. Noseworthy, Vice-President, Management Information Services
E. D. Warkentin, Vice-President, Human Resources
T. M. Carey, Assistant Secretary

Resources
R. C. Siegfried, Group Vice-President
W. J. Smart, Vice-President, Operations
B. Smith, Vice-President, Exploration
J. Whitworth, Vice-President & Controller

Utilities
N. J. Didur, Group Vice-President
R. B. Callow, Vice-President & General Manager (B.C. & Alberta)
G. M. Hoffman, Vice-President, Rate Administration
J. Lagadin, Vice-President, Engineering
F. Little, Vice-President & General Manager (Minnesota)
B. McLean, Vice-President & Controller
R. Muegge, Vice-President & General Manager (Man. & N.W. Ont.)
E. P. Rimmer, Vice-President, Planning
D. G. Olsen, General Manager, Vancouver Island Gas

G. Barbeau, President, Gaz Inter-Cité Québec
J. de Grasse, Vice-President and Project Manager, ICG Brunswick Gas
M. G. Meacher, President, ICG Scotia Gas

Liquid Gas
W. Zboroluk, Group Vice-President
G. Boutin, Zone Vice-President (Quebec)
G. Bullen, Zone Vice-President (B.C.)
R. W. Dunbar, Vice-President & Controller
M. Patterson, Zone Vice-President (Central)
J. L. Pinault, Zone Vice-President (Ontario)
D. Podgurny, Vice-President, Supply and Distribution
J. Salamon, Vice-President, Marketing
J. Schaffer, Zone Vice-President (Alberta)

Manufactured Products
C. R. Beenham, Group Vice-President
D. Taylor, Vice-President & General Manager
B. Bennett, Vice-President, Manufacturing
R. Gannon, Vice-President & Controller
R. Mills, President, Thompson Pipe & Steel Company

D. McKay, President, KeepRite Inc.

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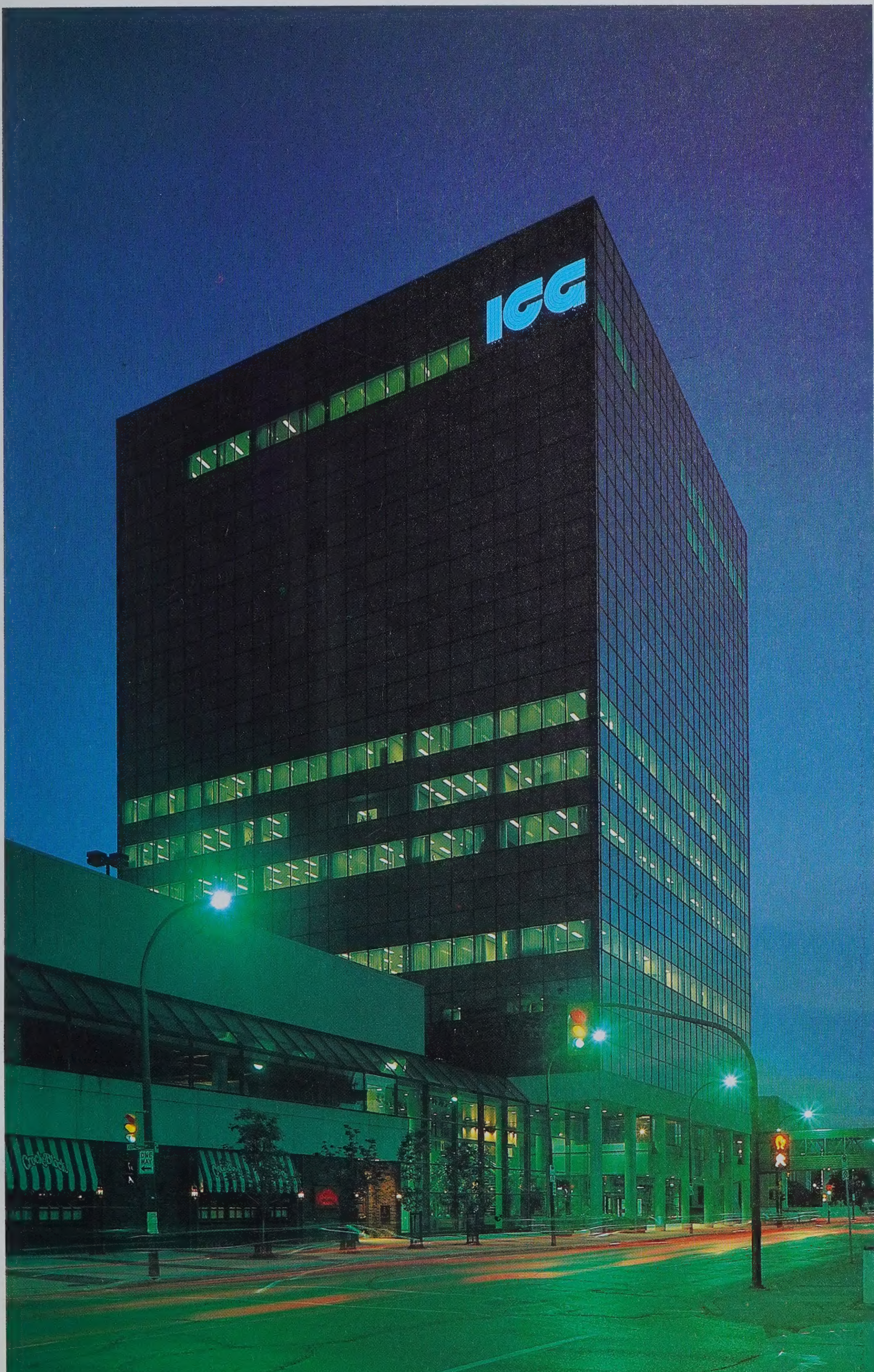

INTER-CITY GAS CORPORATION

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